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KiwiRail Integrated Report 2022

Contents

KiwiRail staff holding a safety briefing.
Safety is our highest priority.

Statement from the Chair

My first year as Chair of KiwiRail has been one of challenges and of achievements.

As detailed in this report, our financial performance was affected by two significant factors: Covid (bringing extra costs and lower passenger revenue); and the extended breakdown of the *Kaiarahi* Interislander ferry which caused serious disruption to our Cook Strait service.

Those challenges are now behind us and we are entering into an exciting future for rail.

The Rail Network Investment Programme (RNIP) has brought a transformational shift in how we can plan and deliver our core renewals and maintenance programme. It has allowed us to begin reducing the backlog of underinvestment, which is critical to delivering a resilient and reliable national rail network for Aotearoa New Zealand.

The benefits flow much further than just an increased level of activity.

The funding certainty that we have over the first three years through the inaugural RNIP allows us to resource appropriately, plan early and deliver the best long-term solutions for our network.

The Government's investment recognises benefits to the country in providing an efficient, low-carbon form of transport. Since 2018, the Government has budgeted $8.6 billion in investment between then and 2030. KiwiRail is committed to delivering the best possible outcomes for that investment, and is making steady progress in delivering on that investment.

It is an investment that is important not only to KiwiRail, but to the country as a whole as it pursues a net carbon zero future.

Rail currently carries about 13 per cent of New Zealand's freight task. If we, as a country, want to reduce transport emissions, rail needs to carry more. To achieve that, KiwiRail needs to improve its service reliability, and that means updating our assets and improving our infrastructure. That will encourage more Kiwi businesses to put their goods on rail.

In the current environment, it is no surprise that the RNIP is facing the same challenges as the wider construction industry. Supply chain issues, resource availability and Covid have all impacted the first year of RNIP delivery. That meant we could not deliver on all the work we wanted, but we are adapting and adjusting in response to these challenges.

In 2021/22 our total capital expenditure was $1.1 billion, with that investment going into upgrading our network, replacing rolling stock and the facilities used to service our wagons and locomotives, and on new ships and terminals for the Interislander.

On the network, significant progress was made on the Auckland and Wellington metro upgrades. Spending on the Auckland metro network was $338.7 million and on the Wellington metro network $93.3 million. Over the Christmas period, when commuter trains were halted to allow work to proceed, there were over a thousand people working in Auckland and Wellington for the blocks of line. In Auckland, this was the biggest mobilisation of resources carried out.

Another $48.6 million was invested in the Northland rail network as part of a programme that will see heavier-axle trains running faster north of Auckland. We are continuing to develop the business case for a new line to Northport.

Spending on rolling stock of $186.3 million included the signing of a contract with Swiss firm Stadler in October for 57 state-of-the art locomotives for the South Island. The locomotives, which are being built in Spain, will begin arriving in early 2024.

The new locomotives represent a significant step forward in turning KiwiRail into a 21st century rail company. The locomotives they are replacing are, on average, nearly 50

I would also like to thank all 4500 in the KiwiRail team. Although the last year was challenging, they can all feel proud of the work they are doing to build a stronger KiwiRail that plays a vital role in New Zealand's transport infrastructure through providing lower-emission, stronger connections.

years old, and well past the end of their economic life. Some have been rebuilt three times, and even when they have been rebuilt, still represent 1970s technology.

The new locomotives will set up our South Island freight service for decades to come.

A symbol of where we are coming from, and where we are going, was the retirement of our longest-serving locomotive, the 85-year-old diesel shunt engine TR56 in March 2022 which was replaced by a new, battery-powered shunt.

Along with the upgrade to our rolling stock, we are also upgrading the mechanical facilities which service them. That work includes a major refurbishment of the Hutt Workshops and a new facility at Waltham in Christchurch. 2021/22 also saw demolition at Hillside, Dunedin, that is needed for the new construction on that site which will allow us to start assembling wagons locally again from late 2023.

Work also continued on the programme to replace the Interislander fleet with two new purpose-built ships, along with new terminal facilities in Picton and Wellington. The ships are currently in the design phase of the build which will take place in South Korea at the Hyundai Mipo Dockyard. The first of these ships will arrive in 2025, and the second a year later.

Passenger rail remains part of KiwiRail's DNA. We ramped up our communication on how KiwiRail can assist local and regional councils in considering passenger rail among their public transport options. We sense increasing demand for rail as a public transport option and are keen to bring our expertise as an operator to help the feasibility assessment. We are proud to operate the two inter-regional commuter rail services in Te Huia (Hamilton to Auckland) and Capital Connection (Palmerston North to Wellington). The positive reception for Te Huia saw an incredible customer satisfaction result, showing how keenly KiwiRail's Scenic and Commuter on-board staff live our Great Customer Experiences value.

Our Scenic tourism services were impacted hard by Covid, with a pause from August 2021 to January 2022 for the TranzAlpine and to September 2022 for the Northern Explorer and Coastal Pacific. However, our team made best use of this time by planning for the launch of an expanded tourism offering for our customers – an enhanced rail experience where we not only get you from A to B on rail, but also sort your accommodation, transfers and visitor experiences, as exciting new packages.

I would like to pay tribute to the leadership of David Gordon and Helen Rogers, who were KiwiRail's Acting Chief Executive and Acting Deputy Chief Executive respectively for over half a year, until 1 August. They did an outstanding job in keeping the organisation focussed and moving forward during turbulent times.

The Board has recently recruited Peter Reidy as Chief Executive. Peter previously served as KiwiRail Chief Executive between 2014 and 2018, and re-joins us following four years as Chief Executive of Fletcher Construction. His infrastructure expertise, strong understanding of KiwiRail's value add in the transport system, and commitment to high-performance-high-engagement with our workforce will complement KiwiRail's transformation programme in the coming years. I am pleased to have witnessed Peter's return being warmly welcomed by staff and stakeholders.

Sue McCormack served KiwiRail as Acting Chair for half of 2021/22, prior to my appointment, and I wish to record my thanks to her once again for her sterling efforts during that time. Two directors, Hazel Armstrong and Noel Coom, retired at the end of the financial year and I also thank them both for their service and contributions.

I would also like to thank all 4500 in the KiwiRail team. Although the last year was challenging, they can all feel proud of the work they are doing to build a stronger KiwiRail that plays a vital role in New Zealand's transport infrastructure through providing lower-emission, stronger connections.

David McLean
Chair

Statement from the Chief Executive

It is a pleasure to return to KiwiRail after four years – a company that gives me great pride. The organisation I returned to is in the process of transforming, ensuring it plays the role it can and should in New Zealand. My focus is on working with our Board, our people, our customers and stakeholders, to lead our company as it builds, connects and grows for the future.

We are witnessing a generational renaissance of rail and ferry transport services. There is a major transformation under way to deliver the thriving business that serves our customers, contributes to carbon reduction, increases rail's share of the freight market, and does so with a safe working environment.

KiwiRail's strength is its people. As the work being undertaken as part of the re-investment in the rail network has grown, so too has our KiwiRail whānau and we now have 4500 on the team. KiwiRail is a popular place to work – there were nearly 29,000 applications for the 1782 employment contracts we entered into in 2021/22.

During the year, 48 new locomotive engineers commenced training, the highest number in a single year, which will not only ensure we replace those who leave, but also allow for growth.

While we are improving, there is still work to be done to improve diversity within the organisation. Fewer than one in five of the KiwiRail team are women; fewer than one in five of the KiwiRail team is aged under 30. This will be a focus for KiwiRail in the coming year, and will include looking at how we can further reduce the gender pay gap.

One measure of fulfilling our purpose is the operating surplus of $133.9 million achieved in 2021/22. It was a creditable result in a year when, along with the rest of the country, we continued to grapple with the disruptions brought by Covid, and, as an organisation, with the ongoing effects of past underinvestment.

The surplus reflects both a growing appetite to use rail, and an increased emphasis on a commercial focus for the business. This isn't spare cash – we use this to pay back debt and continue investing in maintaining our rolling stock, taking vessels to dry dock, and working on our facilities.

Rail freight revenue grew over the year. Total freight revenue was $449.7 million, up 5 per cent or $22 million on 2020/21. That reflected a strong performance across IMEX (import-export), where revenue was up 12 per cent to $167.3 million, bulk and domestic, and significant yield uplifts through renegotiation with a range of customers, new rate agreements with rail customers, and the launch of a rewrite of general conditions of carriage.

The successes in rail freight were offset by a highly disrupted year for Interislander as a result of both mechanical breakdowns and the impact of Covid. The breakdowns included a major gearbox failure on *Kaiarahi*, which took it out of service from August 2021. We were able to partly cover the gap that left in our service by chartering the cargo-only *Valentine*, which began sailing the Strait in January.

Our Scenic services were badly affected by Covid, and the closed borders. We have taken the opportunity to revamp the service, and broaden the range of options we offer our customers. We also made progress refurbishing Scenic and Capital Connection carriages, extending their life and the tourism and public transport experiences they enable.

Our teams remain committed to delivering reliable services for our customers, on rail and on our ferries.

Our property team has similar goals. KiwiRail manages more than 18,000 hectares of land and more than 10,000 leases, licences and grants, and owns more than 900 buildings. In 2021/22, property delivered revenue of $59.5 million. The impact of Covid was managed with limited financial impact.

Agreements were signed for the development of two new train control centres, one in Ellerslie and the other in Upper Hutt, along with the relocation of the corporate head office to Ellerslie.

We have completed the notice of requirement for a proposed new intermodal freight hub near Palmerston North. Land acquisition programmes for that project, as well as the Marsden Point line and Drury rail stations, are progressing.

We also received confirmation from Ministers of support in principle for the extension of our lease from the Crown of the rail estate (the Core Lease) for a further 100 years. The extension is an important part of enabling KiwiRail's broader goal of operating a successful business and being a commercially

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sustainable rail operator, and opens up a range of possibilities for the development of our land. Engagement with iwi to realise this goal is ongoing.

Leading a safety culture and ensuring our frontline people are engaged are personal ambitions for me.

While we absolutely need to be focussed on our customers, and on building a commercially-sustainable business, we only succeed if our people go home safe at the end of every shift. Aligned with our 'Care and Protect' value, we must have an uncompromising commitment to safety throughout the business.

We are making progress on safety. In 2021/22 we saw a 23.2 per cent reduction in the Total Recordable Injuries Frequency Rate – which records how often injuries are happening at work – from 31.2 to 23.96 injuries per million people-hours worked. However, this is still too high.

I am determined to lead our commitment to health and safety, and to show that we care for our people by promoting visible leadership built on the belief that all injuries are preventable.

We are building on a commitment that is already seen in our world-leading innovation to protect workers on the rail corridor, which took out the supreme award at the annual New Zealand Workplace Health and Safety Awards. KiwiRail, Downer and Aurecon jointly received the award for the collaborative project that used virtual shields to help protect rail workers and infrastructure and to reduce the impact on rail passengers while work was carried out on KiwiRail's Trentham to Upper Hutt double-tracking project near central Wellington.

At the same time the installation of SonaSafe – a proximity warning device – has been completed at all our container sites. SonaSafe enables people/plant separation during container movements. It is now being rolled out to excavators to provide increased protection during track work.

Our safety leadership training programme, BeSafe4, is progressing well, with a strong focus on safety behaviours and personal accountability. More than 2200 people have completed the programme so far.

The commitment to engagement goes beyond safety, and I am determined KiwiRail will step up and lead our transformation with people-centred engagement.

That means a key part of our leadership approach will be to actively engage with the front line, and put in place a bottom-up active tone. Delivering for our customers is crucial to our success, and our frontline people are the people who are best-placed to solve any service delivery issues that impact our customers.

KiwiRail does everything it can to ensure it is an environmentally sustainable business. We have a significant role to play to help New Zealand achieve net-zero carbon by 2050. Every tonne of freight carried by rail delivers a 70 per cent emissions saving over road.

We took some important steps towards our sustainability goals in 2021/22. The first refurbished EF electric locomotive was delivered, extending its life by a further 10 years. We also introduced Electric Shunt Vehicles into our depots, providing a cleaner, safer way to move rolling stock.

However, the biggest gains are yet to come. The electric propulsion system selected for KiwiRail's new Interislander ferries, which will see batteries powering 30 per cent of each journey, is part of achieving the 40 per cent reduction in emissions that the new fleet will bring to Interislander operations and to KiwiRail's goal of net-zero carbon emissions by 2050.

That commitment to achieving our emissions reduction target is seen in KiwiRail's $350 million loan facility to finance the purchase of the two new Interislander ferries becoming the first shipping loan in the world to be certified by the Climate Bond Initiative.

The Climate Bonds Standard and Certification Scheme is used globally by bond issuers, governments, investors and financial markets to prioritise investments which genuinely contribute to addressing climate change. The scheme uses rigorous scientific criteria to label bonds, loans and other debt instruments to ensure they are consistent with the goals of the Paris Climate Agreement.

The future for KiwiRail is bright as we build and renew. We are committed to delivering on the investment the Government and New Zealanders have entrusted us with.

This will reduce carbon emissions for New Zealand, help make our freight customers successful, connect communities, and build stronger connections for a better Aotearoa.

Peter Reidy
Chief Executive

Purpose

Stronger Connections. Better New Zealand

> **Connected to our customers and the future needs of their businesses.**
> **Connected to the communities we serve and operate in.**
> **Connected to each other, for the good of the country.**

What is KiwiRail

We move freight and people by rail and sea, and we are stewards of the rail network.

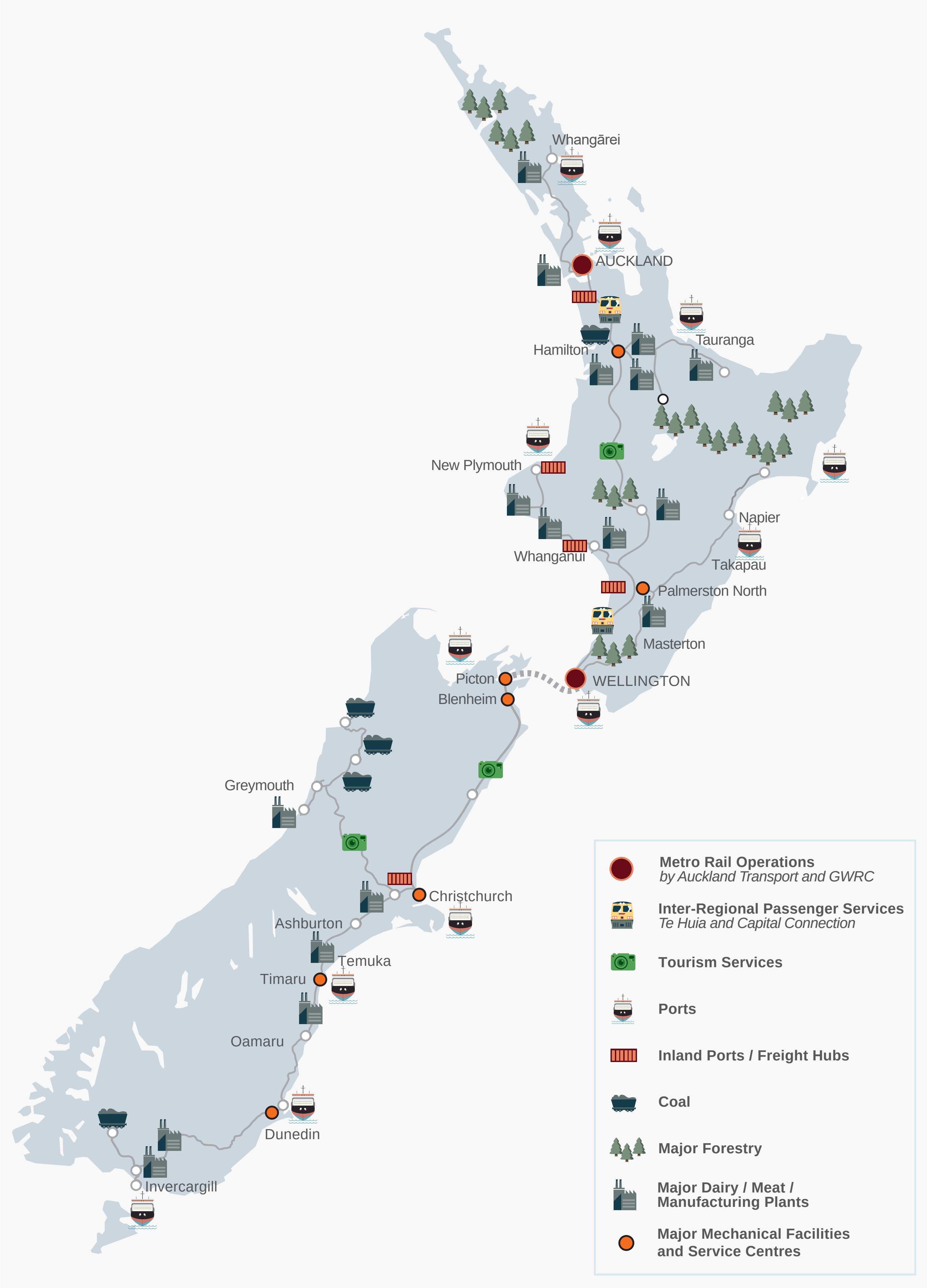
We operate a rail freight, ferry, property and tourism business. We also operate public transport services for local councils. That's our "Above Rail" function – the business. This business is being invested in to renew our commercial assets, supporting our pathway to self-sufficiency Above Rail.

We own and maintain the national rail network infrastructure. That's our "Below Rail" function – the network. The Rail Network Investment Programme (RNIP) is funded through the National Land Transport Fund (NLTF), with other investments made through specific Government initiatives like the New Zealand Upgrade Programme (NZUP).

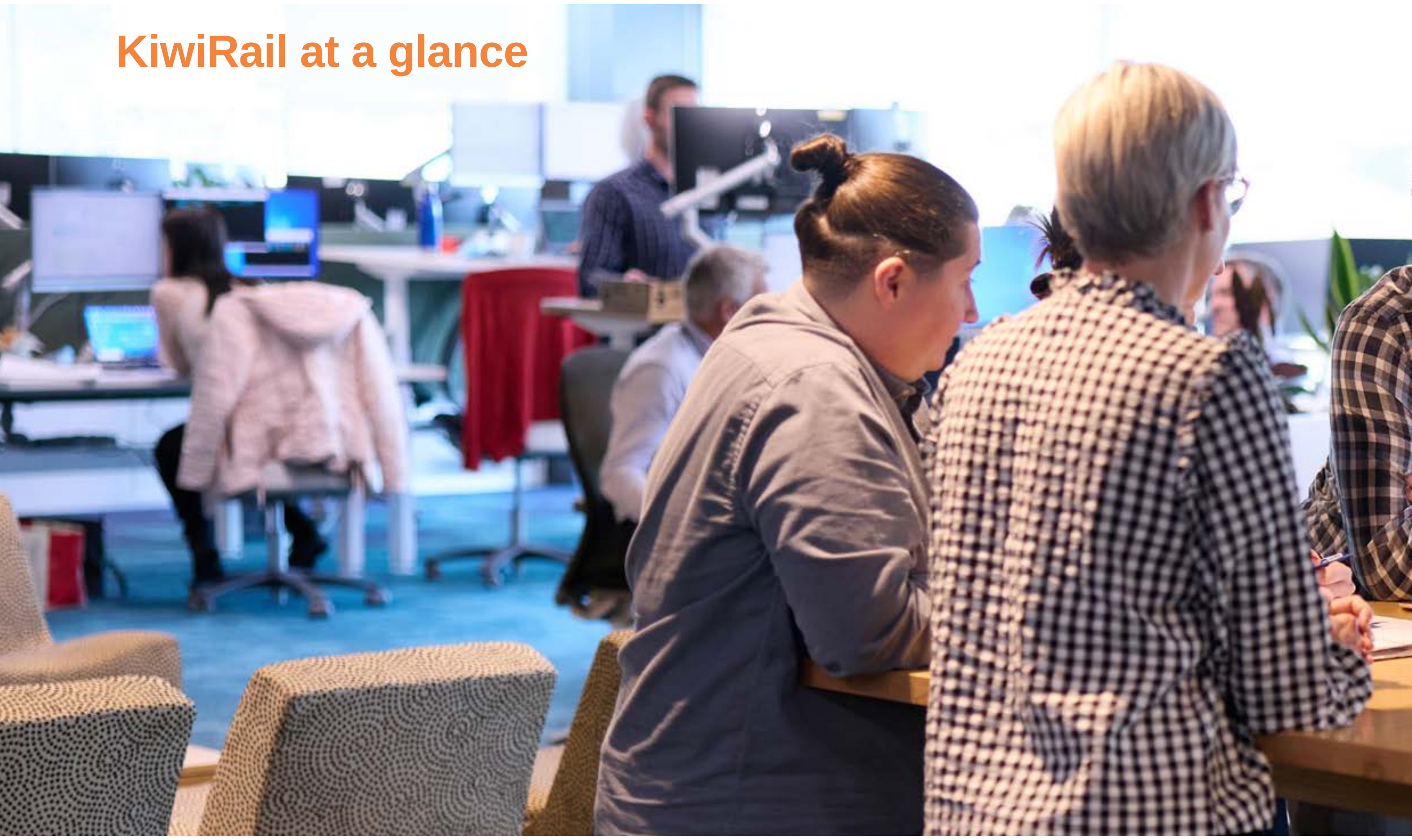
We're a national employer of 4500 with a presence in communities stretching throughout New Zealand, and we are a proud service provider to many companies and communities. We're part of New Zealand's history, and its future.

KiwiRail is a State-Owned Enterprise, an operationally-independent entity that is a registered company charged with running a successful business, being a good employer, and exhibiting a sense of social responsibility. We are accountable, through our Board, to shareholding Ministers for our commercial performance and to the Minister of Transport for transport outcomes.

KiwiRail operates and maintains 3700km of track throughout New Zealand


Whangārei
AUCKLAND
Hamilton
Tauranga
New Plymouth
Napier
Whanganui
Takapau
Palmerston North
Masterton
WELLINGTON
Picton
Blenheim
Greymouth
Christchurch
Ashburton
Temuka
Timaru
Oamaru
Dunedin
Invercargill
Metro Rail Operations
by Auckland Transport and GWRC
Inter-Regional Passenger Services
Te Huia and Capital Connection
Tourism Services
Ports
Inland Ports / Freight Hubs
Coal
Major Forestry
Major Dairy / Meat / Manufacturing Plants
Major Mechanical Facilities and Service Centres

KiwiRail at a glance



Freight

Moves around 18 million tonnes of freight each year

Track

Operates and maintains 3700km of track, including six million sleepers, of which 50% are concrete

Interislander

Operated 2737 sailings in 2021/22, with three vessels –12 daily sailings per day at peak.

Freight NTK

Carries 13% of the net-tonne kilometres of freight each year, amounting to 4.1 billion NTK.

Infrastructure

3100 signals
1500 public level crossings
106 tunnels
1344 bridges

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

Commuters

Operates Te Huia and Capital Connection, and manages the metro networks supporting millions of commuters each year.

KiwiRail employs more than 4500 people throughout New Zealand, including at the Millennium Centre in Ellerslie

Value

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

Our team

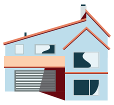
4500 employees

18% female

18% under 30 years old

Property

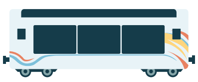
Manages more than 18,000 hectares of land



Owns more than 900 buildings

Manages 10,000+ leases, licences and grants

Tourism



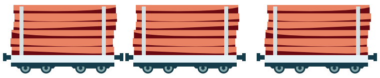
Offers rail tourism experiences between Auckland and Wellington, Picton and Christchurch, and Christchurch and Greymouth

Freight services

Operates 43,000 mainline freight departures each year

247 locomotives and shunts

Exports and imports



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

* The Value of Rail in New Zealand – EY 2021

Integrated Reporting

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 unqualified audit report on the financial statements in this report.

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

Materiality and our reporting approach

Integrated Reports should disclose information that substantively affect an organisation's ability to create value over the short, medium and long term. Our 2019 assessment of material issues are is below, setting out their value creation timeframe, our level of control, and the ranking.

Rank	Material Issue	Value Creation Timing[1]	KiwiRail Control Level[2]
1	Zero Harm	Short- to long-term	High
2	Future Proof Infrastructure	Short- to long-term	Moderate
3	Carbon and Energy	Short- to long-term	Moderate
4	Customer Relationships	Short- to long-term	High
5	Diversity and Inclusion	Short- to medium-term	High
6	Environmental Performance	Short- to long-term	High
7	Materials and Waste	Short- to long-term	High
8	Commercial Viability	Short- to medium-term	Moderate
9	Employee Engagement and Wellbeing	Short- to long-term	High
10	Community Relationships	Short- to medium-term	Moderate

The 2019 assessment was based on stakeholder feedback at the time. KiwiRail had intended to review our materiality ranking with stakeholders during 2021/22 but this work was deprioritised to allow other priorities to be pursued, including responding to the impact of Covid on our business. We expect that any further assessment would seek views from KiwiRail's customers, stakeholder agencies in central and local government, and other groups and communities. Our customers tell us they want ongoing improvements to our service reliability. The Government's strategy for rail places an emphasis on lifting the national network to a standard of resilience and reliability, and supporting emissions reduction through mode shift from road freight to rail freight. Our staff tell us they want KiwiRail to be a good place to work and where a safety culture is paramount.

1- Value creation timing: short-term is considered withing the next 24 months, medium-term is 2-5 years and long-term is five years or more.

2- 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.

KiwiRail staff welcomed Chief Executive Peter Reidy with a powhiri

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

KiwiRail Values

- We Care and Protect: we look after ourselves, our mates, and our environment.
- We work as One Winning Team: positive, empowered and collaborative.
- We are Straight and True: honest, upfront, and treating others with respect.
- Which helps us deliver Great Customer Experiences as we go the extra mile.

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

Value of Rail

Every tonne of freight carried by rail has 70 per cent fewer greenhouse gas emissions than if the same freight was carried by trucks. The 2021 Value of Rail report independently assessed the value of rail for New Zealand at up to $2.1 billion per annum[3].

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.

3- The Value of Rail in New Zealand – EY 2021

KiwiRail Capitals

Financial capital

Input:

Our financial capital comprises operational revenue, Government investment, funding from the National Land Transport Fund, grant funding and debt funding.

Outcome:

Through sustainable, long-term Below Rail funding we can plan for the future and provide a resilient network for a better New Zealand. Through Above Rail investment in new rolling stock and ferry assets, KiwiRail can also continue to grow as a profitable commercial business that will be able to reinvest earnings to fund future capital asset replacement programmes.

2021/22 Highlights

First full-year result reported under KiwiRail's new funding model

Operating surplus[4]: $133.9 million

- Achieved despite a difficult operating and trading environment including the ongoing impact of Covid which significantly affected domestic and international passenger volumes, major mechanical issues affecting Interislander, and inflationary cost pressures.

Total freight revenue was $449.7 million, up $22 million on FY21, reflecting a strong performance in IMEX (import-export), where revenue was up $18.3 million, as well as higher volumes in the bulk and domestic sectors.

Capital expenditure for the year was $1.1 billion. This is the largest level of capital investment in a single year in KiwiRail's history.

People capital

Input:

Our 4500 people bring expertise, pride and passion to KiwiRail.

Outcome:

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

2021/22 Highlights

Achieved a 23.2 per cent reduction in the Total Recordable Injuries Frequency Rate (TRIFR)

Installation of SonaSafe (a proximity warning device) at all of our container transfer sites. SonaSafe helps maintain separation between people and machines on site.

Enhanced safety programmes with the roll-out of BeSafe4 and Hunting for Hazards, and commenced the multi-year operating rules transformation project.

Grew our talent and youth pipeline training programmes with, for example, apprentices now totalling more than 100 people.

Successfully targeted campaigns to attract women into critical roles, such as Locomotive Engineers, and other technical roles.

Growth of employee networks to support KiwiRail staff, through:

- Mana Wahine (Women's Network)
- Te Kupenga Mahi (Māori Network)
- Kapa Kotahi (Youth Network)
- Pacific Network
- Rainbow Network

Grew capability to deliver KiwiRail's substantial capital investment programmes.

Renegotiated four collective agreements with our union partners.

Enhancement of our digital people systems.

Environment capital

Input:

We are kaitiaki (guardian) of the rail corridor, and with that comes a responsibility to care for and protect the health of the environment, our society and the economy.

Outcome:

We minimise our environmental impacts and play a key role in the transition to a net zero carbon emissions economy, by providing low emissions freight solutions.

2021/22 Highlights

KiwiRail's $350 million loan facility to purchase two new Interislander ferries becomes the first shipping loan in the world to be certified by the Climate Bond Initiative

- The scheme is used globally to prioritise investments which genuinely contribute to addressing climate change.

Improved rail freight carbon intensity of 26.57 grams of CO2-e per net tonne kilometre (NTK).

Retired an 85-year-old diesel locomotive as part of the roll-out of new electric remote-controlled shunt locomotives.

Commenced three Infrastructure Sustainability Council ratings across two infrastructure programmes, one per terminal in Project iReX and one across the Drury Stations.

Signed up as members of Amotai supplier diversity network.

Refreshed our Rautaki Whakauka Sustainability Strategy.

Initiated a transition in consent management process, to enable better environmental compliance outcomes.

Created a KiwiRail Environmental Manual, to show clear practical steps to achieve environmental management best practice on the ground.

Transitioned business level environmental reporting to a suite of dedicated environmental reporting metrics, alongside Health and Safety.

4- Operating surplus represents earnings before depreciation & amortisation, interest, impairment, capital grants and fair value changes.

Relationships capital

Input:

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

Outcome:

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

2021/22 Highlights

Commemorated Te Au o Rehutai in May 2022, the mana whenua governance and advisory group for Project iReX, including Taranaki Whānui ki Te Upoko o Te Ika, Ngāti Toa Rangatira, Te Ātiawa o Te Waka-a-Māui.

Strengthened our relationship with Te Ātiawa o Te Waka-a-Māui, who whakapapa to the top of the South Island, following the early 2021 signing of our kawenata.

Commenced development of Māori Outcomes Strategy, including engaging with iwi on the proposal to extend the core lease.

Property Development and Partnering Strategy confirmed, including commitment to engagement proactively with iwi-Māori as preferred investment partners for future developments of our landholdings.

Engaged in a new monitoring relationship with Waka Kotahi in respect of the Rail Network Investment Programme, alongside our long-standing engagements with Waka Kotahi through planning processes, overlapping corridors, and through the important rail safety regulator role delivered by Waka Kotahi.

Ongoing engagement with local government throughout the country.

- Enhanced joint governance arrangements with Auckland Transport and Greater Wellington Regional Council for the metropolitan rail networks.
- Minister of Transport appointed a KiwiRail member to the Waikato and Bay of Plenty regional transport committees to strengthen transport planning connections across the Golden Triangle.

Rail Safety Week campaign focus on rural awareness

- Seventy-nine per cent of fatal and serious injury crashes between trains and vehicles happen in provincial towns or rural areas

Ongoing engagement with communities on new ferry facilities for Wellington and Waitohi Picton and a proposed new intermodal freight hub in Palmerston North.

KiwiRail is carrying out extensive upgrades on the Wellington commuter network, including in its tunnels.

Assets capital

Input:

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

Outcome:

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

2021/22 Highlights

Contract signed for 57 new low emissions locomotives for the South Island

- The Stadler Rail Valencia-built locomotives will begin arriving in 2024.

First refurbished EF electric locomotive delivered, with a working life extended by 10 years

- The locomotives will be a key part of our decarbonisation pathway.

Introduction of Electric Shunt vehicles into depots, creating a cleaner safer way to move rolling stock.

Significant progress on upgrades to Auckland and Wellington metro networks.

Re-railing and re-sleepering the North Auckland Line.

Delivering the first year of the RNIP, focusing on catch-up renewals and maintenance across New Zealand, to progressively lift the national network to a standard of resilience and reliability.

Skills & know-how capital

Input:

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

Outcome:

Utilise expert knowledge and industry specific technology to meet challenges and create new opportunities.

2021/22 Highlights

Introduced new NZQA qualifications in rail.

Expanded leadership offer, launching new modular Manager 101 programme.

Became an approved professional development partner with Engineering NZ.

Expanded Virtual Reality learning programmes and finalist in international VR Awards.

High-tech project with Downer NZ and Aurecon to create virtual shields protecting workers completing the Trentham to Upper Hutt double-tracking wins top New Zealand Workplace Health and Safety Award.

Urgent linkspan modifications which would normally have taken six months to a year completed in weeks allowing ferry *Valentine* to replace *Kaiarahi* on Cook Strait

- Achievement recognised with a Civil Construction NZ Excellence Award.

Virtual reality training environments developed.

Veneering plant opens in Kokiri to reduce the amount of coal dust blowing off wagons.

- The plant operates completely autonomously, and uses radio frequency identification to ensure only eastbound coal wagons are treated.

Carbon and Energy

Rail represents less than 9 per cent of New Zealand's transport emissions. We can and will improve on this to build on our competitive advantage.

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.

Other benefits of shifting freight from road to rail include reduced congestion through avoided car and truck movements; reduced air pollution; improved road safety, including fewer injuries and fatalities; lower road maintenance costs for taxpayers; and fuel savings.

In 2022, Ministry for the Environment, published the country's first Emissions Reduction Plan which sets the direction for climate action for the next 15 years. It lays out the emissions budgets and actions needed to meet those targets across every sector of the economy, including transport. One of the key recommendations to decarbonise the transport sector is to reduce the emissions from the freight sub-sector by 35 per cent by 2035. Auckland Council and Greater Wellington Regional Council have also published ambitious transport emissions reduction plans, which both rely on increased public transport use of the two metropolitan rail networks.

Supporting opportunities to move more freight by rail will help achieve the targets set out in the Emissions Reduction Plan. The investment programme outlined in the NZ Rail Plan and Rail Network Investment Programme will play a critical part in achieving this.

Carbon footprint

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 2011/12 baseline) and to be net zero carbon by 2050. We measure our carbon emissions (CO_2-e) on an intensity basis for our rail freight operations, and on an absolute basis for the organisation.

In 2021/22, our carbon footprint for scope 1 and 2 emissions was 207,790 t CO_2-e. Our carbon performance is shown in the table and a breakdown of our carbon footprint in below.

Between 2020/21 and 2021/22, we reduced our carbon footprint. This is due to several factors, including a continued focus on operational efficiency of our freight locomotives, as well as changing the fuel type our

Carbon performance[5]

	2011/12	2018/19	2019/20	2020/21	2021/22
Rail Freight Carbon Intensity (grams CO_2-e per net tonne kilometre)	32.51	27.06	27.69	26.72	26.57
Carbon footprint – scope 1 and 2 (tonnes CO_2-e per net tonne kilometre)	279,861	240,127	231,101	233,472	207,790

Carbon footprint - 207, 790 t CO_2e

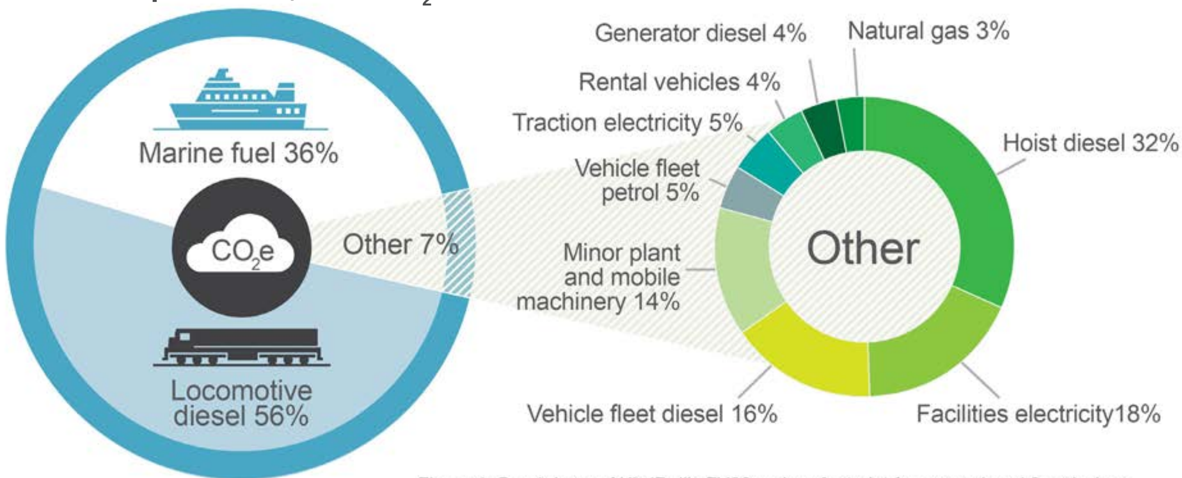


Figure 1: Breakdown of KiwiRail's FY22 carbon footprint for scope 1 and 2 emissions

5- 2015/16-2019/20 figures differ to those reported previously. This is due to reflecting changes from Ministry for the Environment's greenhouse gas emissions factor for electricity.

Interislander ferries use to comply with MARPOL Annex VI.

In addition, the unexpected reduction in the number of Interislander services temporarily reduced our footprint, while the identification and removal of electricity and gas emissions from our tenants from our footprint represents a permanent adjustment in our methodology.

In addition to reducing New Zealand's emissions by increasing modal shift from road to rail, KiwiRail is also focused on decarbonising its assets and operations. A key aspect of our Sustainability Programme is our close collaboration with the Energy Efficiency and Conservation Authority (EECA). Fuel usage by our trains and ferries makes up most of our carbon footprint and has been the area of greatest focus within our sustainability programme.

Procurement of lower carbon assets

In 2022, KiwiRail procured 57 new locomotives for the South Island. While the new locomotives will still operate using diesel, they will be built to the highest emissions standards (EU stage V) and be equipped with a range of onboard technologies to optimise fuel use. The new locomotives will also be more powerful than those in our current fleet which means we will need fewer locomotives to pull heavier trains. The new South Island locomotives are expected to arrive in 2024.

Our new Interislander ferries (contracted 30 June 2021) will be a hybrid diesel-electric battery configuration which will reduce emissions from the ferry fleet by 40 per cent when the current fleet is phased out, and by 16 per cent for KiwiRail's overall footprint, delivering a large step change reduction for the business. In 2021/22, we secured the first Climate Bond Initiative (CBI) marine loan in the world, demonstrating our commitment to increasing the battery capacity of the ferries over time as part of that certification. More details of the green loan are in the Green Borrowing Programme section below.

Future focus on decarbonisation

As part of our decarbonisation pathway, we have begun an indicative business case (IBC) process for our future mainline locomotive fleet. In support of our 2050 target of net zero carbon emissions, we have investigated a range of fuel, energy and motive power technologies and eliminated those options that fail to either reduce carbon emissions or improve our competitiveness in the freight sector.

Through this process, KiwiRail has developed a set of scenarios of the potential freight task that could shift to rail and increase our contribution to New Zealand's carbon reduction targets. These mode shift scenarios make assumptions on the pace of response by the roading sector to changes in carbon reduction signals. KiwiRail has talked to stakeholders, suppliers and customers to gather feedback and input on the IBC. Analysis and economic modelling of options will shortly be complete, and we will outline recommendations to enable rail freight haulage to realise its potential to reduce New Zealand's carbon emissions.

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 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 2021/22, KiwiRail transported more than 18 million tonnes of freight which equates to taking more than 1.137 million truck trips off the road, avoiding over 287,000 tonnes of CO_2-e emissions.

Sustainable infrastructure

In addition to replacing our ferries and some of our rolling stock, we are also building more infrastructure. KiwiRail is a member of the Infrastructure Sustainability Council which is a purpose-led organisation now working to enable sustainable outcomes in infrastructure through a comprehensive certification tool.

In 2022, KiwiRail committed to achieving an IS Excellent rating on two major capital programmes: the Interislander terminals (as part of the iReX (Inter-Islander Resilient Connection) programme), and the Drury Railway Stations programme. Both programmes are progressing through design phase and have established management processes to embed broader outcomes. For example, adapting our procurement practices to enhance the participation of local businesses in the construction of the iReX Terminals.

Waste minimisation

KiwiRail generates a variety of commercial and technical wastes from our operations and infrastructure projects. In May 2022, KiwiRail launched a waste minimisation project to execute key recommendations from the 2020/21 Circular Economy Audit. The initial focus is on data and reporting; a live waste dashboard will enable better understanding of waste generation and trends across sites and different business units. This project will also facilitate waste service upgrades across KiwiRail sites, investigating end of life solutions for unique waste streams, and reducing single use materials across the Interislander fleet.

Our waste focus extends to our construction activities too. Materials from ballast cleaning, ballast renewal and formation upgrade activities are estimated to exceed 200,000 cubic metres over the next two to three years in Auckland alone. We are working collaboratively with industry leaders in spoil management to regenerate this material into industry approved products for reuse. This will facilitate greater landfill diversion across the organisation, further improving our sustainability footprint.

Green Borrowing Programme

Inter-Island Resilient Connection Project (iReX Project)

The iReX Project is a key next step for KiwiRail in its commitment to lowering future emissions. The project involves replacing the current fleet of diesel-fuelled, ageing Interislander ferries with two new rail-enabled diesel-electric hybrid ferries. The new ferries will reduce emissions compared to the current fleet by up to 40 per cent. The ships will be designed with a diesel-electric hybrid engine configuration, supported by an optimised hull design and azimuth thrusters to improve fuel performance and contribute to lower emissions. In the future, conversion to fully electric motorisation is considered, ensuring that the ferries will stay below the trajectory to net zero emissions by 2050.

To recognise these initiatives, KiwiRail has established a Green Borrowing Programme. This progressive approach to green borrowing will support the acquisition of the two new ferries, whilst providing lenders the opportunity to access a broad range of accredited green debt instruments. The Green Borrowing Programme is described in KiwiRail's Green Loan Framework (Framework), which is aligned to the requirements of the Climate Bond Initiative (CBI) Climate Bonds Standard Version 3.0 (December 2019) and the technical requirements of the CBI Shipping Criteria (September 2020).

The Framework, CBI certification and EY's assurance statement are available in the sustainability section of our website. The Framework provides for a comprehensive compliance and disclosure regime to ensure the Climate Bonds Standard Version 3.0 and the technical requirements of the CBI Shipping Criteria are always met.

The following table sets out the total green asset value and total green debt instruments for the current reporting period, and confirms that the Green Ratio is met at 2.18. To the best of its knowledge, KiwiRail confirms it remains compliant with CBI certification, including the requirements of Climate Bonds Standard Version 3.0 and the technical requirements of the CBI Shipping Criteria.

	Loan Amount (NZD)	Nominated Green Asset (NZD)	Green Ratio
Total Loan - iReX Ships	350,000,000	550,441,223	1.57
First Shipyard Payment	25,000,000	54,464,009	2.18
Remaining Amount	**325,000,000**	**495,977,214**	**1.53**

May commemoration at Pipitea Marae of Te Au o Rehutai, the mana whenua governance and advisory group for Project iReX. Members include Taranaki Whānui ki Te Upoko o Te Ika and Ngāti Toa Rangatira (Te Whanganui a Tara, Wellington) and Te Ātiawa o Te Waka-a-Māui (Waitohi, Picton) and KiwiRail.

Above and Below Rail

This year's financial result is different to any other in our history, as rail network funding is integrated into the land transport management system.

KiwiRail Financial Performance

($m)	Group KiwiRail	Above Rail The Business	Below Rail The Network
External Revenue	851.0	669.5	181.5
Operating Expenses	(717.1)	(535.6)	(181.5)
Operating Surplus	133.9	133.9	-
Capital Expenditure	1,138.2	483.6	654.6

The 2021/22 result is the first to be reported under KiwiRail's new funding model, following amendments to the Land Transport Management Act in 2020.

These changes enabled KiwiRail to access funding for the rail network through the National Land Transport Fund (NLTF) based on an approved Rail Network Investment Programme (RNIP) and help to provide clarity between our "Above Rail" business and our "Below Rail" network.

Our operating surplus shows this, as our commercial functions generate more revenue than they expend, while our network function takes revenue to meet the planned expense.

The Above Rail Business provides:

- Rail logistics services to freight markets
- Ferry services to rail and road freight markets, and for passengers and private vehicles
- Passenger rail services for public transport (commuter) and tourism (Scenic) markets
- Property management and development for rail operations and third-party land use

The Above Rail Business is charged with becoming self-sustaining. It is funded through operating cash flows, external borrowings, and a shareholder investment programme to renew commercial assets to improve performance.

The Below Rail Network provides:

- Infrastructure expertise, delivering our core maintenance, renewals and improvements programme in the rail network for all rail users

The Below Rail Network is funded by the Government through the Rail Network Investment Programme, major improvement projects like the New Zealand Upgrade Programme, and access agreements from all rail users. While Waka Kotahi administers RNIP funding through the NLTF, the fund is supplemented by a direct Crown contribution, track access fees paid by rail users, and a Track User Charge paid by KiwiRail.

The Above and Below Rail businesses are both supported by shared corporate services including a specialist Zero Harm team, finance, legal, human resources, ICT, policy and funding, communications and strategy. These businesses both also contain Programme Delivery teams delivering major asset renewals and improvements programmes.

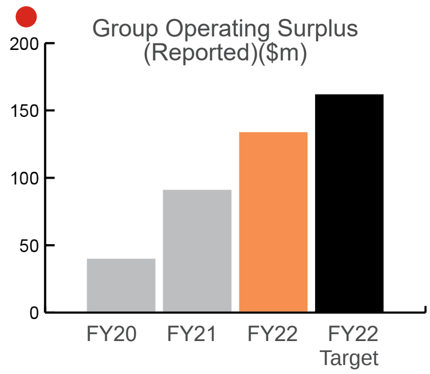
Performance

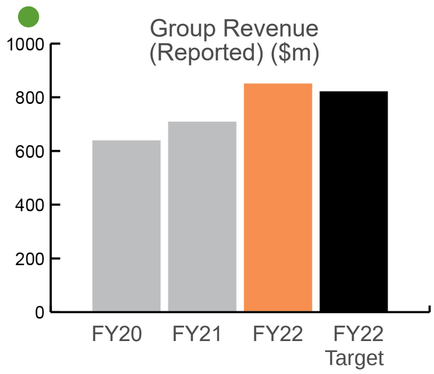
This section presents the performance of KiwiRail as a Group, at a business unit level (Above Rail), and across the major network programme (Below Rail).

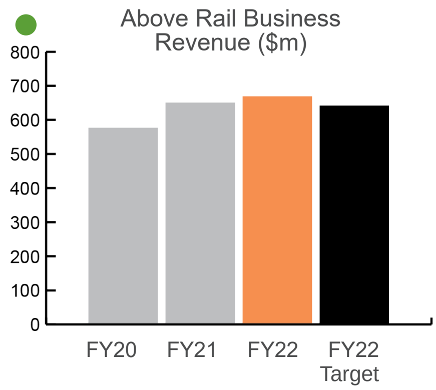
KiwiRail Group

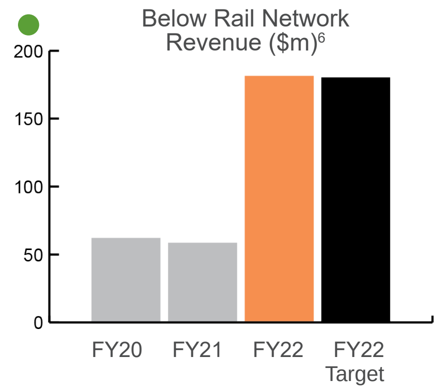
The Group seeks to achieve strong and sustainable operating surpluses and cash flows, achieve high-performance-high-engagement with our increasingly diverse staff, and ensure our systems enable a culture of safety in all that we do.

Above and Below Rail Revenue and Funding

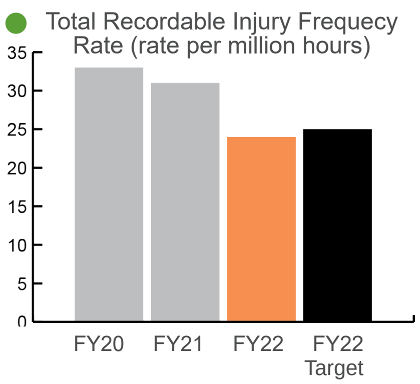


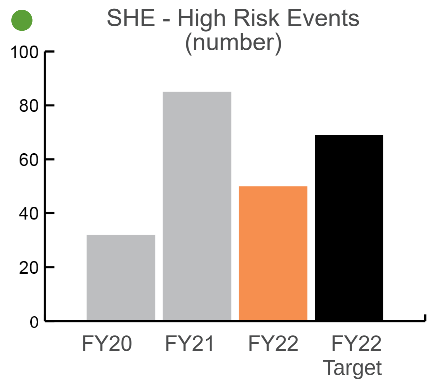


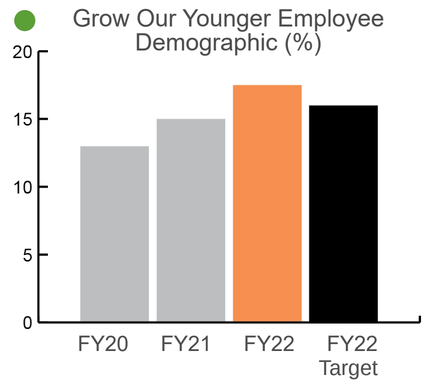


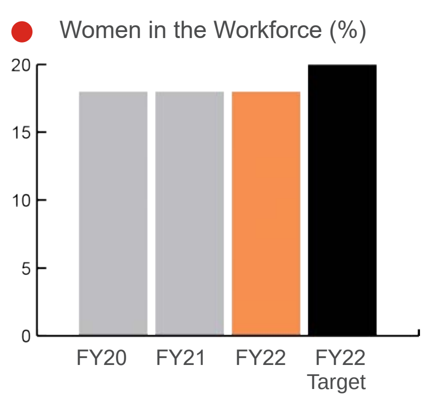


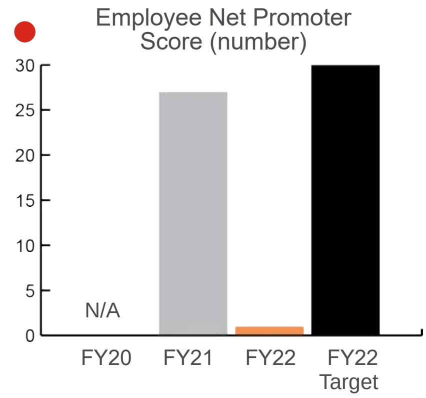
Group KPIs - Trends - People metrics











KEY:
- ● Achieved target performance
- ● Within 10 per cent of target
- ● Below 10 per cent of target

6- The Below Rail Network is funded by the Rail Network Investment Programme, which came into effect on 1 July 2021. As such, the prior year figures are lower.

Group Performance Commentary

Overall, KiwiRail reported an operating surplus of $133.9 million for the year ended 30 June 2022. This is a solid result, and was achieved despite a challenging operating environment in the financial year. KiwiRail's rail freight performed strongly during the financial year across most freight sectors. However, Interislander was impacted by the unexpected breakdown of the *Kaiarahi* and both Interislander and Scenic were impacted by the ongoing effect of Covid and restrictions on domestic and international travel.

In safety terms, the Total Recordable Injuries Frequency Rate (TRIFR), which records how often injuries are happening at work, reduced by 23.2 per cent – from 31.2 to 23.96 injuries per million people-hours worked. This is an improvement, but it also reminds us that there is still work to be done.

KiwiRail conducted an engagement survey of our staff during 2021/22. We received a response rate of 70 per cent, slightly down on the previous survey during 2019/20. Our overall result was a net promoter score of +1 (against a target of +30). In part, this reflects KiwiRail's working environment being impacted by significant operational challenges and prolonged lockdowns, generating uncertainty and significant change across the business, with a high proportion of our company being affected directly by Covid in their households. These are issues that directly impact on people's experience at work. We are focussing on actions to address the issues raised.

In this context:

- 32 per cent of respondents said they were very likely to promote KiwiRail as a place to work to their friends and family (rating nine or ten out of ten).
- 37 per cent of respondents were neutral (rating seven or eight out of ten).
- 31 per cent of respondents were detractors (rating zero through six out of ten).

The eNPS score is calculated by subtracting the detractors (31 per cent) from the promoters (32 per cent) to get a net result of +1.

We know that our people are our strength. In 2021/22, we:

- Recruited 1038 new staff across the Group, of whom 31 per cent are women and 41 per cent are under 30 years old.
- Recruited an additional 197 people to deliver the RNIP.
- Grew our graduate and intern intakes by 100 per cent, with a focus on attracting women into both programmes.
- More than 45,000 instances of learning completed.
- KiwiRail's Gender Pay Gap was calculated using the Statistics NZ methodology and shared with our people (gap was 3.2 per cent). This is about two-thirds less than the national average (9.1 per cent) and is one of several measures which we use to improve KiwiRail as a workplace for women.

KiwiRail is looking to build diversity and reduce the gender pay gap

Above Rail Business

Rail Freight

> **A strong year serving our customers, despite challenges brought by Covid, Interislander mechanical failures, and ongoing uncertainty in the international supply chain.**

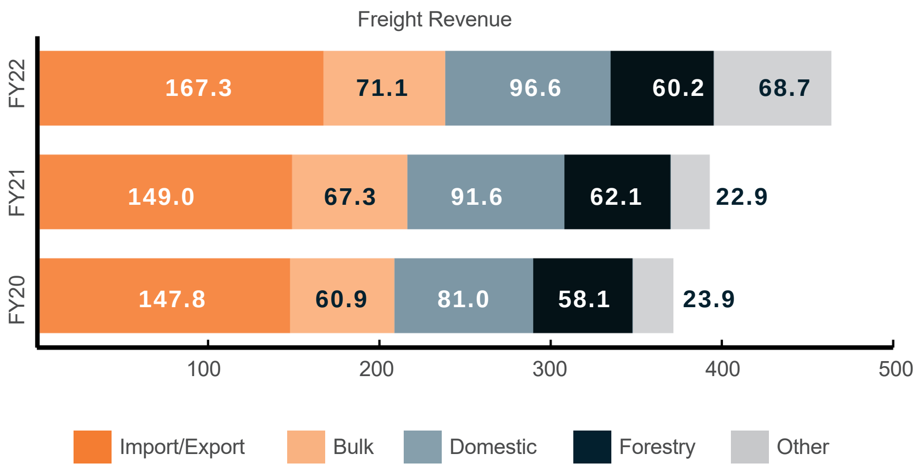
What we do - operations at a glance

We operate around 1000 mainline freight departures per week (peak) moving 13 per cent of New Zealand's freight task and 20 per cent of New Zealand's exports and imports. This is equivalent to 1.14 million truck trips.

People and Assets

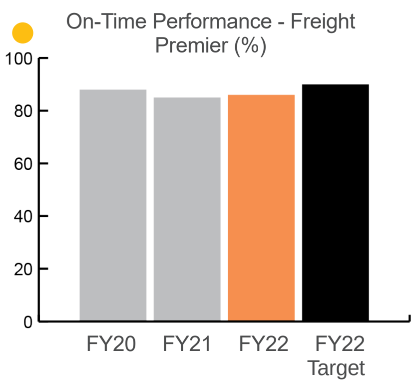
- 1797 employees, including 398 locomotive engineers and 431 trainees and apprentices.
- 247 locomotives and shunts and around 4700 wagons.
- Major rolling stock workshop at Woburn (Lower Hutt), with Hillside (Dunedin) and Waltham (Christchurch) currently being redeveloped. Maintenance depots at 12 other locations, four of which service passenger rolling stock.
- 19 container transfer and rail terminal sites.

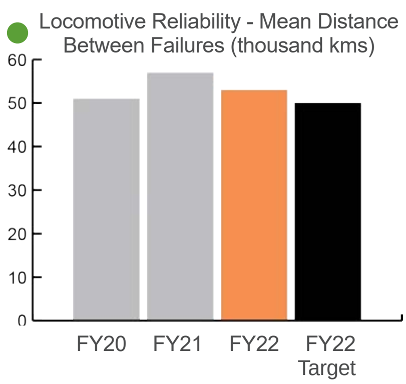
Freight revenue by market $463.9 million – 18 per cent growth on prior year.

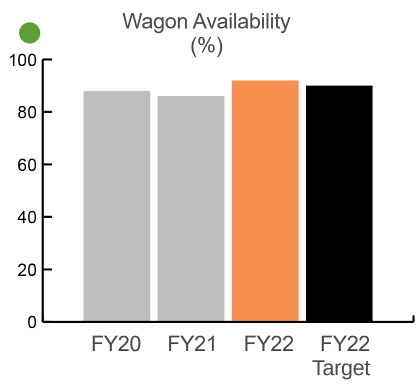


What we did - our performance

Operational KPIs - Trends

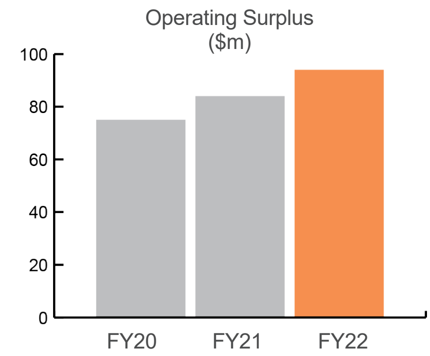


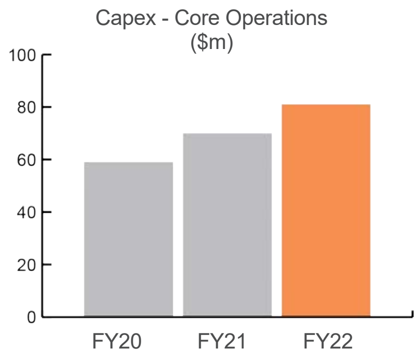


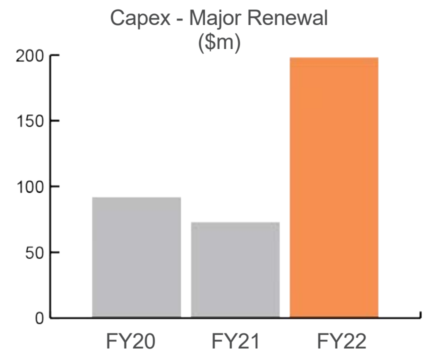


KEY:
- Achieved target performance
- Within 10 per cent of target
- Below 10 per cent of target

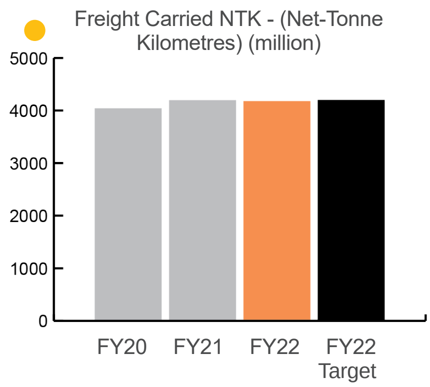
Financials and Funding

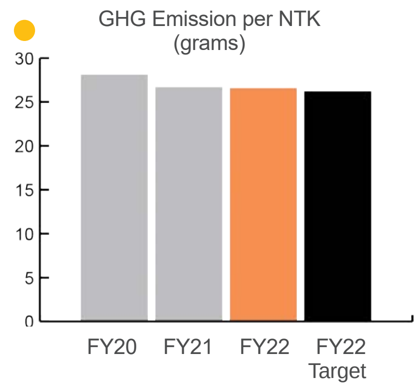


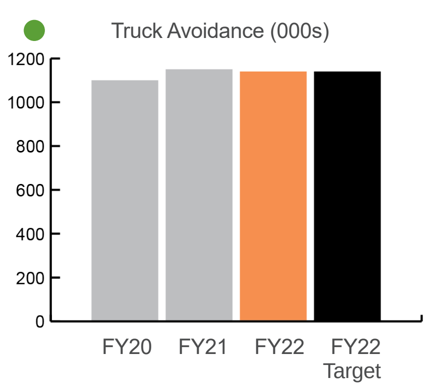




Outcome and Benefits







Operations Commentary

Both locomotive reliability and wagon availability exceeded target reflecting the benefit of KiwiRail's rolling stock performance programme in keeping the existing fleet in service and running reliably until the new replacements arrive.

Covid continued to create many challenges for our freight operation teams and resulted in On-Time Performance being slightly below target but better than the previous year.

The improvement in operating surplus reflects the growth in freight revenue, which was partially offset by inflationary cost pressures, and Covid-related compliance expenses.

Key achievements included:

- Increased import/export revenue – changes to our train schedule enabled us to carry more freight to and from Port of Tauranga with services increasing to 92 trains per week.
- Increased bulk revenue due to serving new contracted high-value coking coal volumes for export by customers and higher customer-imported coal volumes.

Capital Expenditure

KiwiRail is progressing a major renewals programme for our locomotive and wagon fleet. The multi-year rolling-stock programme is expected to be completed in 2027 and is funded primarily through shareholder equity committed during Budgets 2019 to 2022. This programme is critical to improving service reliability and reducing the risk associated with ageing rolling stock fleet.

Key achievements included:

- 392 new wagons were accepted into service across April, November and February of 2021/22, supporting our freight peak during the year.
- 16 electric shunt vehicles were commissioned to reduce emissions and improve safety.
- First EF electric locomotive fully refurbished and undergoing final commissioning.
- Contract signed for 57 new, state-of-the-art, low-emission mainline locomotives for use in the South Island.
- 200 wagons ordered to enable our oldest wagons to be retired prior to the assembly facility at Hillside being commissioned.

Outcomes and Benefits

KiwiRail maintained its NTK (net tonne kilometre) volume, delivering significant benefits to New Zealand in the form of avoided carbon emissions as well as reducing congestion and the risk of serious crashes between trucks and cars by keeping large volumes of freight off roads.

Overall, we are focussed on increasing capacity and improving the reliability and service performance of our commercial assets. This programme is essential for the resilience of New Zealand's freight supply chain.

Outlook

Rail Freight is in a strong position as the network is progressively lifted to a higher standard of resilience and reliability, and as rolling stock and mechanical facility assets are renewed between now and 2027. Reopening of borders will also assist in recruiting key skills into KiwiRail.

In the meantime, KiwiRail's freight services are still operating with aged assets in some places, which requires ongoing maintenance to improve service reliability for our customers.

Domestic rail freight volumes between Auckland and Christchurch are forecast to increase. The Interislander vessel *Kaiarahi* is scheduled to return to service before the end of calendar year 2022, bolstering Interislander capacity on the Cook Strait.

Import and export volume demand is high, particularly on the Golden Triangle, despite ongoing international shipping line schedule uncertainty because of Covid.

Ten DL locomotives, 258 forestry wagons, and 90 container flat top wagons are expected to arrive in 2022/23, which will continue to improve service reliability for customers as aged assets are retired.

Palmerston North Team Leader Justin Stehlin is part of the team improving KiwiRail's reliability and service performance

Interislander

Interislander crews performed under sustained pressure from Covid and the unexpected breakdown of *Kaiarahi,* which was responded to with fast mobilisation to secure a charter ship to provide back-up freight capacity.

What we do - operations at a glance

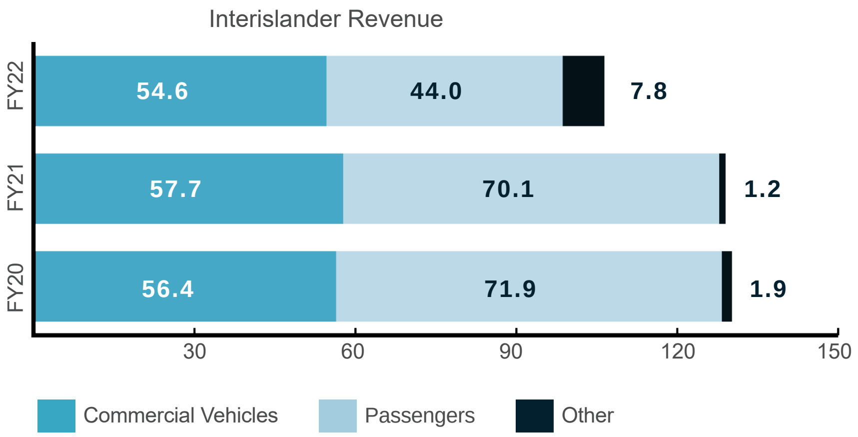
Last financial year, we operated 2737 sailings between Wellington and Picton. During peak freight and passenger times of the year, we operated up to 12 daily sailings. On our busiest passenger days of the year, we carried more than 3500 passengers and 1000 passenger vehicles. The year was disrupted by Covid and the unexpected failure of the *Kaiarahi* gearbox, making for a highly challenging year.

People and Assets

- 681 employees, including 17 trainees and apprentices.
- Four ships including *Valentine*, which was leased while *Kaiarahi* was out of service awaiting repair.
- Two terminals and marshalling yards in Wellington and Picton.

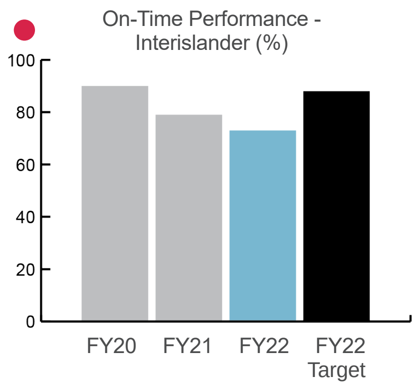
Safety remains a top priority for our Interislander crews. Tragically, Interislander lost a long-time member of our team while driving a company vehicle, which was a devastating end to the year.

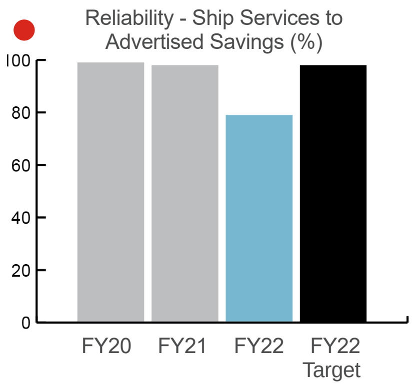
Interislander Revenue $106.4 million – 18 per cent decline on prior year[7].



What we did - our performance

Operational KPIs - Trends

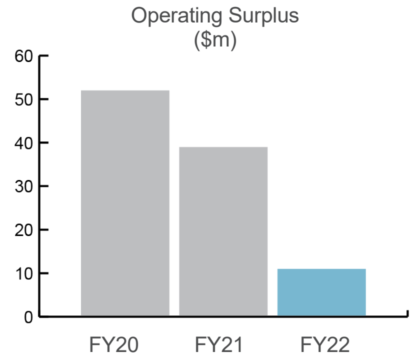


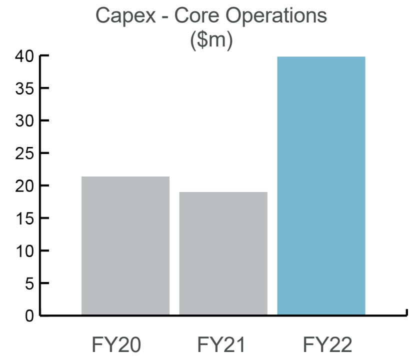


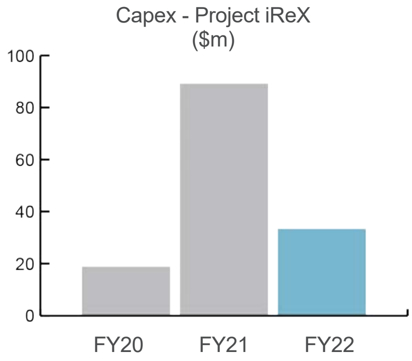
KEY:
- Achieved target performance
- Within 10 per cent of target
- Below 10 per cent of target

7- External rail freight revenue that is carried on Interislander is included within Rail Freight performance

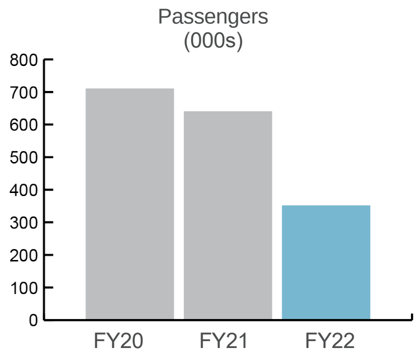
Financials and Funding

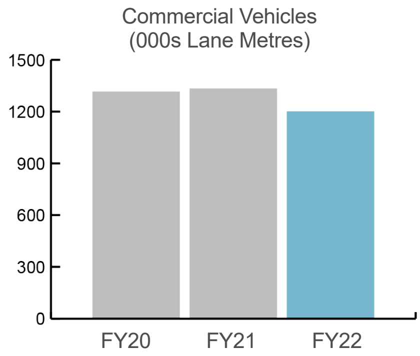






Outcome and Benefits





Operations Commentary

Operating surplus was impacted significantly with the loss of passenger revenue as Covid reduced domestic and international passenger demand, the impact of the Omicron variant on crewing levels, and the withdrawal of the *Kaiarahi* from service from September 2021, due to an unexpected failure of its gearbox.

Commercial freight lane metres fell as Interislander operated for an extended period through the peak freight period with only two ships. We mitigated the impact of the *Kaiarahi* gearbox failure by chartering a replacement vessel, *Valentine*.

Our lower on-time performance reflects significant Interislander disruption during 2021/22 with the unexpected breakdown of *Kaiarahi* in September 2021, Covid disruptions impacting crewing, inflationary cost pressures, and service disruptive weather events.

We were able to secure additional tonnage through leasing *Valentine* which arrived in December 2021 and commenced regular revenue services in January 2022. In this extraordinary context, a 73 per cent on-time performance is a strong result.

Key achievements:

- Leased *Valentine* vessel arrived in December 2021, to provide commercial vehicle freight capacity while *Kaiarahi* was out of service. This required the rapid selection, commercial negotiation, and mobilisation from Europe of the *Valentine*. It also required the Wellington linkspan to be altered to accommodate the new vessel. The linkspan project won a Construction Industry Excellence Award.
- Remaining operational through Covid lockdowns and the Omicron outbreak with minimal disruptions, despite operational challenges.
- Advanced preparations for *Aratere* wet dock and *Kaitaki* dry dock across August and September 2022, readying the entire fleet for peak season from October 2022 to April 2023.
- Securing specialist overseas manufacturing expertise to plan for the replacement of *Kaiarahi* gearbox parts.
- Passenger bookings increasing as the domestic market recovers and borders reopen, with marketing resuming for international passengers.
- MARPOL compliance was achieved with associated costs reflected in customer pricing.
- Recovering quickly after weather events and other disruptions by quickly clearing freight and passenger backlogs.

Capital Expenditure

Interislander vessels went to dry dock two times during 2021/22 for regular maintenance.

KiwiRail is progressing Project Interislander Resilience (iReX), which will transform the Interislander fleet with two new rail-capable, low-emission ferries and new terminal infrastructure in both Wellington and Picton. The programme will be completed in 2026 when the second new ferry arrives, and KiwiRail is investing to ensure its systems are equipped for the new operations and services.

Key achievements:

- $39 million capital expenditure toward maintenance of the vessels and investing in systems for the new Interislander fleet.
- Adapting landside infrastructure to support *Valentine* to service the freight supply chain, which involved alterations to the linkspan. These were completed in a tight timeframe.

Outcomes and Benefits

Moving freight using a rail-enabled ferry – *Aratere* – allowed KiwiRail to optimise its Auckland-Christchurch domestic rail freight services, with additional support across the roll-on-roll-off ferries – *Kaitaki*, *Kaiarahi* and, latterly, *Valentine.*

Moving people by the Cook Strait provides an alternative to flying that allows them to travel with their vehicles and offers the quintessential New Zealand experience of cruising on the Interislander. Lower passenger numbers than targeted in 2021/22 reflects the impact of Covid and the disruption to our fleet.

Outlook

The return of *Kaiarahi* in 2022 will restore Interislander's capacity to cater for the freight demand over peak season. It is well timed, coming as passenger demand grows with the re-opening of the international borders to tourists, and the easing of travel restrictions inside New Zealand.

In the longer term, Project iReX will bring two modern, rail-enabled ferries to replace the Interislander fleet in 2025 and 2026. We are gearing the business up to ensure we take full advantage of the shift. The two new ferries will increase capacity and efficiency and improve the Interislander experience.

In the meantime our focus is on providing service reliability, through ensuring the existing ferries are well-maintained given their age and developing the landside infrastructure to be ready for the new ferries.

Working on the two new Interislander ships is a once-in-a-lifetime opportunity, says iReX Ships Project Manager Catriona Young

Scenic and Commuter

Covid brought a pause for our services, but we made the most of the time by preparing improved tours and packages for our Scenic services.

Commuter services remain a high priority for KiwiRail, and we are proud operators of Te Huia and Capital Connection.

What we do - operations at a glance

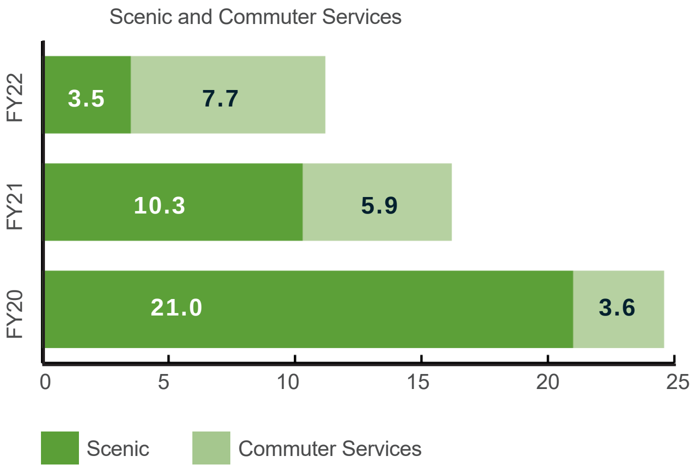
We operate:

- Three scenic services providing a unique rail tourism experience on three routes: TranzAlpine, Coastal Pacific, Northern Explorer
- Two public transport service operations in Te Huia and Capital Connection under contract with regional authorities, connecting commuters between Hamilton and Auckland, and Palmerston North and Wellington respectively.

People and Assets

- 98 employees, including 15 trainees and apprentices[8]
- 7 DFB class locomotives, 3 DX class locomotives, 28 Scenic carriages, and 21 Commuter carriages
- Mechanical facilities in Auckland, Hamilton, Wellington, and Christchurch, with stations and platforms stretching across the network.

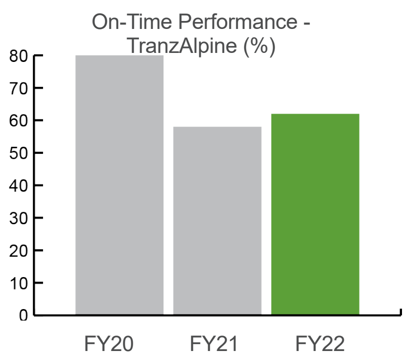
Scenic and Commuter Revenue $11.2 million – 31 per cent decline on prior year.



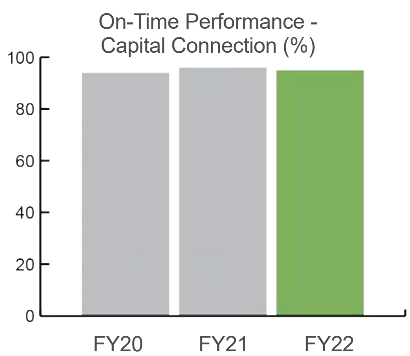
What we did - our performance

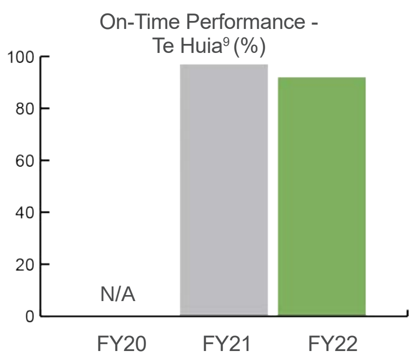
Operational KPIs - Trends

SCENIC



COMMUTER

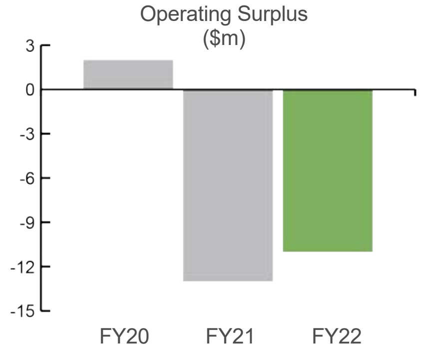


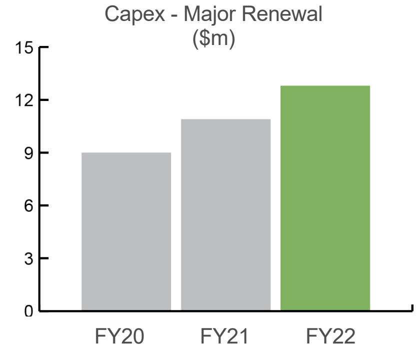


8- This includes 27 rolling stock employees who are in the passenger train maintenance team

9- On-Time Performance for the Northern Explorer and Coastal Pacific is not provided as these services operated for six weeks only during 2021/22, and were paused for the remainder of the year due to Covid.

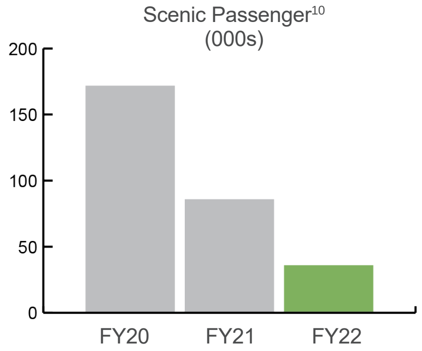
Financials and Funding



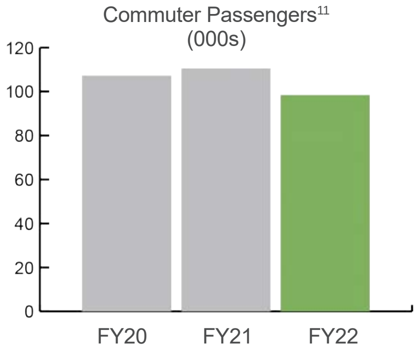


Outcome and Benefits

SCENIC



COMMUTER



Operations Commentary

Scenic tourism services were hibernated from August 2021 due to the impacts of Covid and closed borders on their financial viability. The TranzAlpine restarted in January 2022, while the Northern Explorer and Coastal Pacific are scheduled to resume in September 2022.

While the services were hibernated, KiwiRail reflected on its offerings and has announced a bold strategy for the Scenic business, with new packages that better serve the tourism market built around our Northern Explorer, TranzAlpine and Coastal Pacific routes. In addition to the new approach enabling our scenic services to be more financially sustainable, it will also play a role in helping other tourism operators recover after the impact of Covid.

Commuter services for Te Huia and Capital Connection were paused in August 2021. Te Huia was not able to restart until January 2022, after the Auckland Covid health settings changed to allow for inter-regional travel. Both services have since performed well, with record patronage achieved on Te Huia as people returned to the office and made use of the Government's 50 per cent fare reduction. Capital Connection performed well despite some mechanical challenges near the end of the financial year.

Key achievements:

- Preparations for a revamped Scenic offer well advanced, with packages and tours across the three routes.
- 94 per cent satisfaction among Te Huia passengers, with 93 per cent recommending Te Huia to others.
- Substantial refurbishment progress on the first of two Capital Connection consists (the carriages which make up a train), which will put the service on a sound footing in the coming years.

Capital Expenditure

With funding from Kānoa, KiwiRail is refurbishing carriages for the Scenic 'Plus' service which will have kitchen and premium seating carriages. There will also be some improvements to platforms at stations ready for the new Scenic tours and packages.

10- No Scenic passenger target for Northern Explorer, Coastal Pacific and TranzAlpine in 2021/22, reflecting uncertainty as at mid-2021 during Covid.

11- No passenger numbers for KiwiRail operated inter-regional services, Te Huia and Capital Connection, as passenger volume planning is a matter for the responsible regional councils.

In addition, the NZ Upgrade Programme is funding carriage refurbishment for the Capital Connection. Labour constraints in 2021/22 meant components of the planned programme shifted into 2022/23. Eleven carriages will be completed in mid-2023.

Outcomes and Benefits

Scenic services connect New Zealanders and international guests to regional New Zealand and tourism experiences, playing a key role in regional economies. The low passenger numbers reflect the impact of Covid, including most of 2021/22 operating without the Northern Explorer and Coastal Pacific (August 2021 to year-end) and TranzAlpine (August 2021 to January 2022).

Commuter services support New Zealanders getting to and from major urban centres through a low-emissions and comfortable transport choice and reduce reliance on car travel. Passenger numbers were heavily impacted by Covid, with prolonged pauses and large numbers working from home. However, patronage significantly picked up in the final quarter as people returned to the office and the 50 per cent fare reduction policy came into effect.

KiwiRail supports passenger rail and encourages engagement in the transport planning processes for any new passenger rail public transport service. More information is available on the KiwiRail website: https://www.kiwirail.co.nz/what-we-do/regional-passenger-rail

Outlook

After a sustained Covid impact, all three Scenic services will be operating from September 2022, with expanded tours and packages being progressively added to broaden the unique experience offered to customers.

We expect strong patronage on both commuter services due to a return to working-from-the-office and the 50 per cent fare reduction policy between April 2022 and January 2023.

The return of refurbished Capital Connection carriages to the service in 2023 will improve service reliability and comfort.

Scenic services expect strong patronage as the tourism market rebounds from Covid

Property and Facilities

Significant activity across the rail corridor with developments and renewals in every major centre, along with commencing an iwi engagement programme regarding our core lease on railway land.

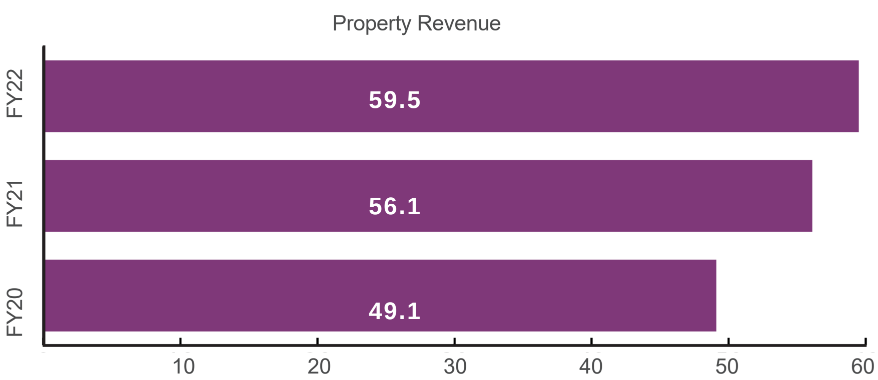
What we do - operations at a glance

Manage land use, leases, and property asset management for railway purposes and our customers, alongside property development and stakeholder engagement with partners and iwi across the motu.

People and assets

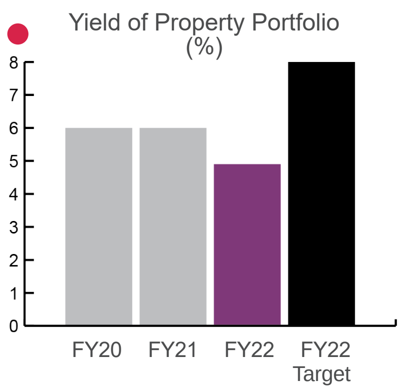
- 45 people
- More than 18,000 hectares of land holdings
- More than 10,000 leases.
- More than 900 buildings.
- More than 3000 level crossings.
- 27 contracts signed for the acquisition of $33.5 million of land (primarily in respect of the Central North Island freight hub, Marsden Point Rail Link, and Drury Stations).

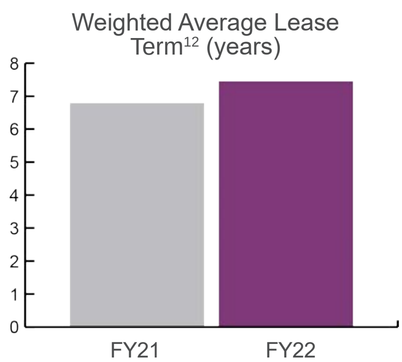
Revenue $59.5 million – 6 per cent increase on prior year



What we did - our performance

Operational KPIs - Trends



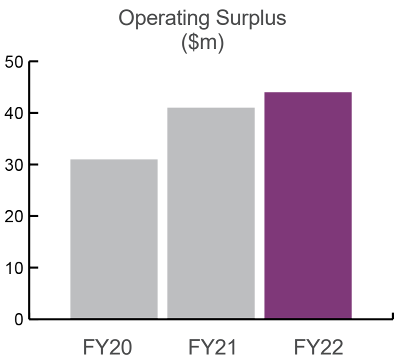


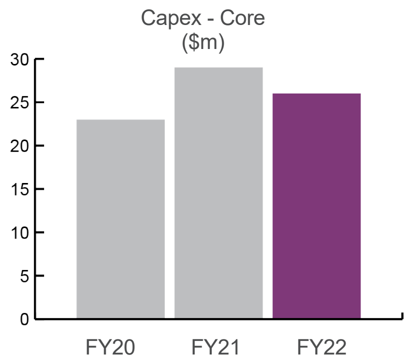
While revenue and operating surplus have both increased during 2021/22, the yield of property portfolio decreased due to the significant underlying property value growth (i.e. the revenue from the properties relative to the value of the properties shifted). The underlying value of the properties increased from $612.6 million to $724.1 million between 2020/21 and 2021/22.

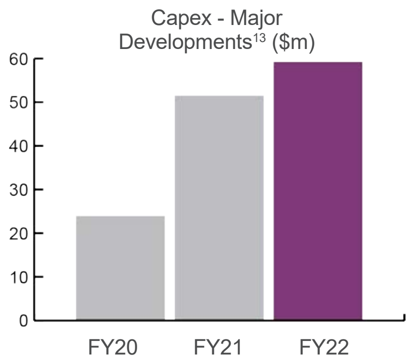
KEY:
- Achieved target performance
- Within 10 per cent of target
- Below 10 per cent of target

12- Weighted Average Lease Term measures the weighted average remaining contract lease term for all tenants in commercial property. Rental income is used as the weight in calculating the weighted average.

Financials and Funding







As a shared service Facilities does not earn any external revenue and has an operating surplus of $nil due to external costs being fully allocated out to the business.

Operations Commentary

KiwiRail's commercial strategy involves the development of rail properties to support multi-modal freight solutions, while also enabling the Government's infrastructure programme for the rail network. This includes:

- Protecting current and future rail corridors.
- Investing in and maintaining land for the benefit of our people, the environment, and our freight customers.
- Defining long-term land requirements and partnering to drive revenue growth and support integrated transport solutions for New Zealand.

Key achievements included:

- Engagement commenced with iwi on the proposed extension to the core lease on rail land, supporting the long-term use of the rail corridor for the network and KiwiRail.
- Heads of terms signed with partners on joint ventures for two rail enabled partnership developments.
- Relocation of the Auckland head office to Ellerslie, and agreements signed for the development of new train control centres in Upper Hutt and Auckland.

Capital Expenditure

KiwiRail is developing its commercial property portfolio by working in partnership with others to develop fit-for-purpose facilities for customers, including rail-served facilities for our freight customers, multi-modal container transfer sites, and other rail adjacent land uses. We are also progressing a renewal programme of our mechanical facilities and depots, and progressively improving our operational sites and office accommodation across the country.

Key achievements include:

- $25.8 million in core capital expenditure in capital works on our existing facilities, including earthquake strengthening and capital maintenance. Within this, KiwiRail invested:
  - $10.0 million in capital expenditure for Commercial Property.
  - $15.8 million in capital expenditure for Facilities.
- Development of multiple mechanical facilities across New Zealand (expected to be completed in 2025), supporting new rolling stock and wagons and the improved reliability of rail services including the following Government funded activities:
  - Contracts awarded to build a new Waltham Mechanical Hub in Christchurch, redevelop Hillside in Dunedin, and continue the major refurbishment at Hutt Workshops, Wellington.
  - Demolition of Hillside buildings, and substantial progress on the redevelopment of the mechanical and assembly facilities on site.
  - Preparatory work to improve mechanical facilities in Mt Maunganui.
- Preparatory work on the consents for the Wellington Terminal project across 2021/22 through Project iReX, funded by KiwiRail, the ports and the Government.
- Completing the notice of requirement for the proposed new Central North Island freight hub near Palmerston North.
- A multi-year seismic and deferred maintenance programme at the Wellington Railway Station.

Outcomes and Benefits

KiwiRail's property team manages a portfolio of 279 leased buildings and 647 operational buildings used and occupied by KiwiRail staff.

In 2021/22 we completed a condition assessment programme of our portfolio to inform our long term asset management plans and facilities management strategy for these buildings. We have also developed a five-year capital plan for the staged improvement of this portfolio, with the first year of this work delivered.

13- Major Developments include Mechanical Facilities upgrades, Wellington Railway Station improvements, Train Control facility, and land acquisitions for the proposed Central North Island Freight Hub and Marsden Point Rail Link.

This included the relocation of our Auckland head office, the rebuild of our offices at Midas Place in Christchurch which were destroyed by fire and the upgrade of several operational facilities across the country. A deferred maintenance and seismic remediation programme is also underway to upgrade the Wellington Railway Station. These programmes will reduce operating cost and improve working conditions for all our staff.

Renewing mechanical facilities enables KiwiRail to deliver its services with greater reliability and resilience. As an example work carried out in the Hutt Workshops reduces seismic risk, improves the working environment (including heat, lighting and amenity), while the Hillside Redevelopment Programme delivers similar outcomes alongside environmental improvements and better resilience against flooding.

The programme also enables greater efficiency across our resources, such as allowing the consolidation of rail operations at the Waltham site in Christchurch.

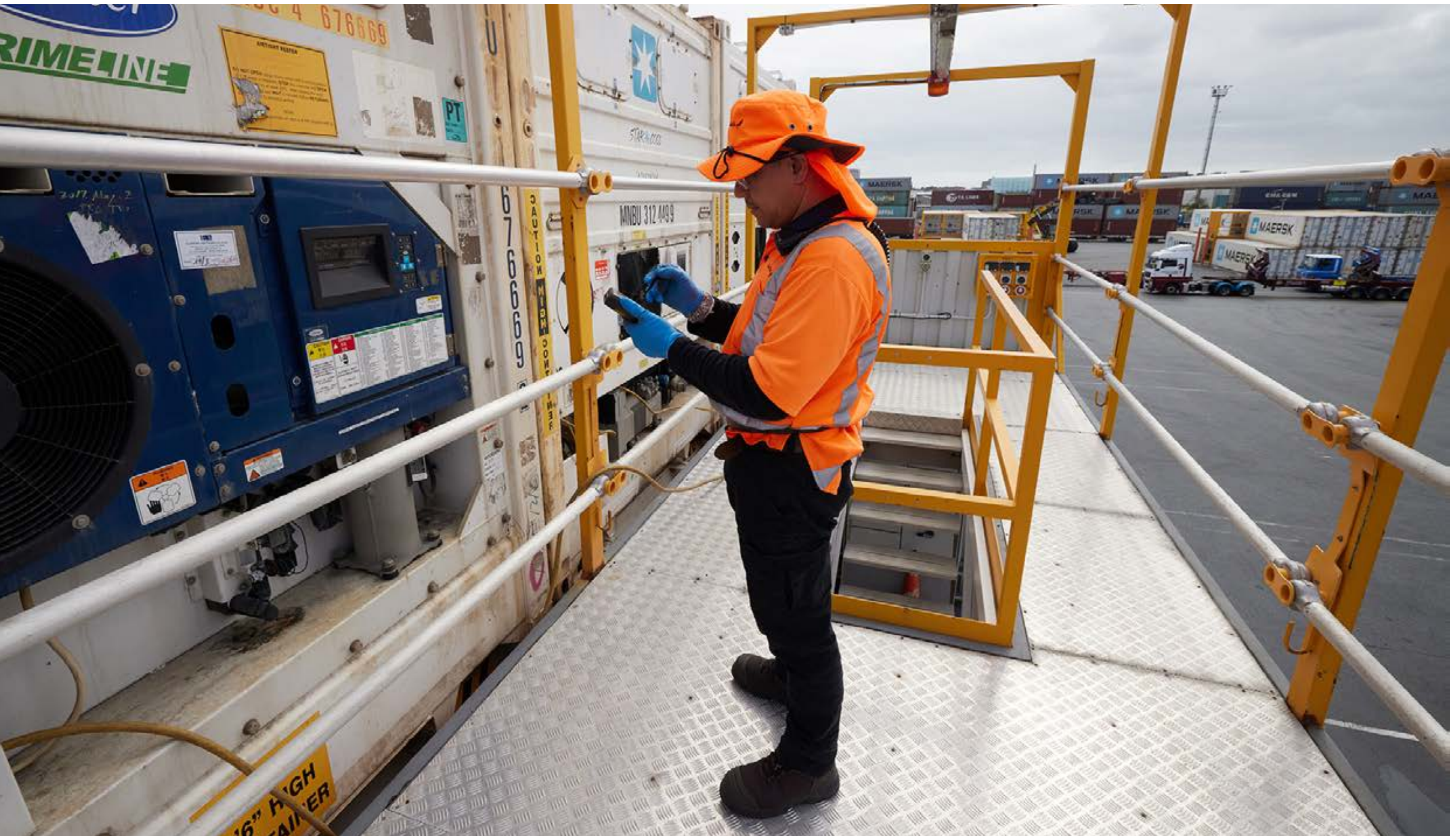
We are undertaking a multi-year programme to ensure the documentation and inspection of all level crossings within the portfolio. This programme is now 30 per cent complete with 176 new grants put in place in 2021/22. We want to reduce the fatalities at level crossings, and ensuring that crossings are accurately documented and maintained is key in managing this risk.

Outlook

Following engagement with iwi to confirm that their rights to first refusal on railway land will remain in place, KiwiRail is proposing to extend the core lease on railway land from 2070 to 2170. This will enable long-term development of railway property for the benefit of KiwiRail and future partners, including iwi.

Renewing core mechanical facilities and depots, redeveloping Hillside, relocating the Train Control Centre, refurbishing the Wellington Railway Station, and building new terminals in Picton and Wellington are all underway, with large portions of KiwiRail's vertical assets receiving investment which advances key components of our asset management strategy.

Looking ahead, we plan to focus on more rail enabled, fit-for-purpose developments and intermodal regional freight hubs. These will create efficient conduits for freight movement around the country. We plan to work with strategically aligned partners, including mana whenua, to unlock further value in our property portfolio.



Southdown Gate Officer Sopian Halim is part of the team running the vital container terminal site

Below Rail Network

The network continues to be lifted to resilience and reliability with major advances in 2021/22, the first year of the Rail Network Investment Programme, despite international supply chain constraints on materials.

What we do - operations at a glance

People and assets

KiwiRail maintains more than 3700 km of mainline rail infrastructure nationwide, including the Auckland and Wellington metropolitan areas, and 900km of yard track. Its programme includes the Rail Network Investment Programme to deliver a resilient and reliable national network, and separately funded projects such as the Auckland and Wellington metropolitan upgrades.

1378 staff are dedicated to maintaining and improving the reliability and resilience of the rail network, including 215 trainees and apprentices.

The rail infrastructure includes the track, structures (bridges and tunnels), civil infrastructure (culverts, slope, and coastal protection), signals, telecommunications, traction and electrical (overhead line), and active level crossings. The condition of the infrastructure is monitored with inspections, and work is prioritised in line with asset management policies and to reflect customer requirements.

The work requires access to the track. We use specialised rail equipment, including tampers, work trains, ballast, and rail wagons which allows us to keep disruption to normal freight and passenger flows to a minimum.

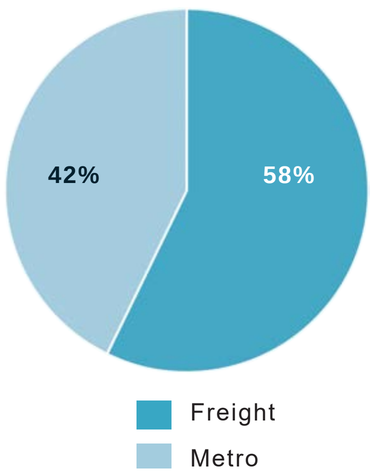
Investment Programme

The Government has made significant investments to revitalise rail in New Zealand. These investments in KiwiRail's assets have been made from the National Land Transport Fund, New Zealand Upgrade Programme, Kānoa projects, Crown Infrastructure Partner projects, and Budget appropriations.

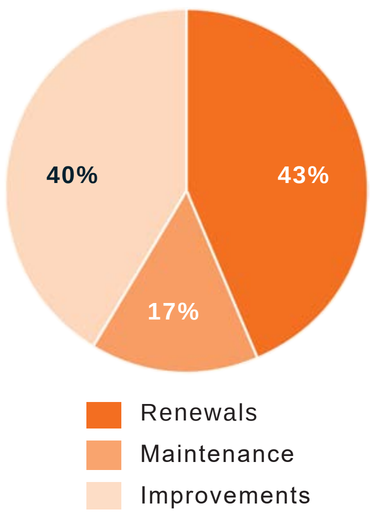
In addition to the funding from central government, Auckland Transport and Greater Wellington Regional Council contribute to the maintenance and renewal cost of rail infrastructure used for metro services and improvement projects under Network Access Agreements.

Our 2021/22 Below Rail operating expenses and capital expenditure of $0.8 billion by business segment and type shows our focus on renewing and improving our rail network for both freight customers and metro passengers.

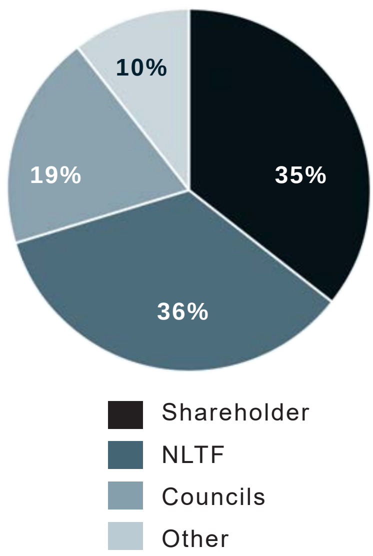
FY22 Below Rail Spend by Business Segment



FY22 Below Rail Spend by Type



FY22 Below Rail Spend by Funding Source[14]



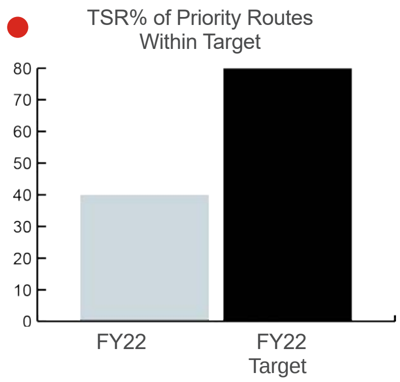
Funding of $181.4 million received from the NLTF, regional and local authorities (Councils) and third parties is recognised as external revenue and offsets maintenance expenditure for financial reporting purposes.

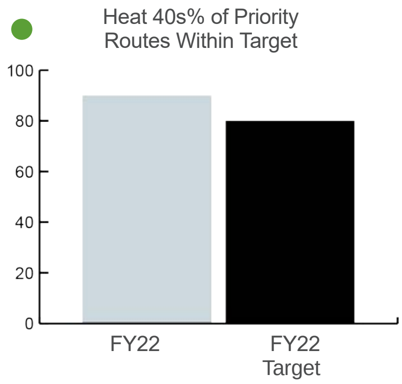
Prior to the new RNIP funding model coming into effect on 1 July 2021, KiwiRail spent $457 million over 2020/21 and 2019/20 on maintaining and renewing its freight network, funded from new equity, and retained earnings.

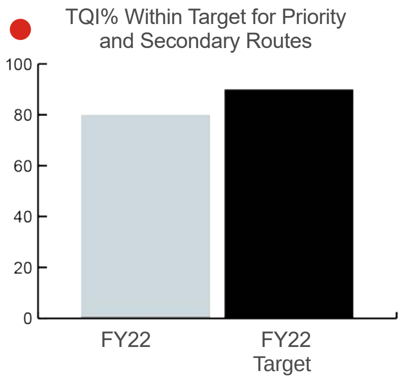
14- Other spend includes Northland renewals of 2019/20 $114.8m, 2020/21 $127.5m, 2021/22 $34.3m funded by Kānoa.

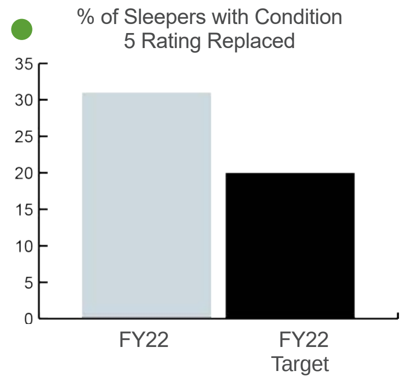
Operational KPIs - Trends

Rail Network (Freight and Passenger)

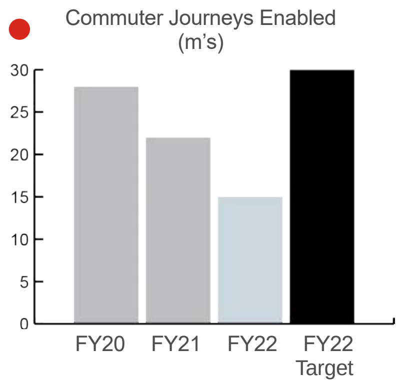








Auckland and Wellington Metro



Passenger journeys have significantly decreased due to Covid alert levels and changes to working practices.

The above measures and targets were introduced as part of the Rail Network Investment Programme which commenced on 1 July 2021.

Temporary Speed Restrictions (TSR) are placed on sections of track to restrict speed due to its condition or while it is awaiting other work to complete the job, such as tamping. KiwiRail has set an acceptable level of TSRs on each route, depending on route-specific factors, such as traffic type and volume. KiwiRail's ability to achieve the TSR target was constrained by tamper availability which are required to complete works and remove the TSR. Tampers to address this issue are on order. The result is not as we had targeted, as our year-one RNIP programme was disrupted due to international supply chain constraints. We expect this measure will improve across the three-year programme.

Heat 40s are a TSR that is placed on a section of rail in the warmer months to mitigate the risk of rail buckling. By de-stressing the continuously-welded rail KiwiRail reduces the need for speed restrictions. We achieved this target during the year.

Track Quality Index (TQI) is a measure calculated by our EM80 track-inspection car and provides an indication of track quality. TQI was achieved in all of our priority routes, but not on four secondary routes. The Ohai line did not meet the target because of rail shipment delays. The same supply chain constraints meant this could not be met in year one, however we expect this measure will improve across the three-year programme.

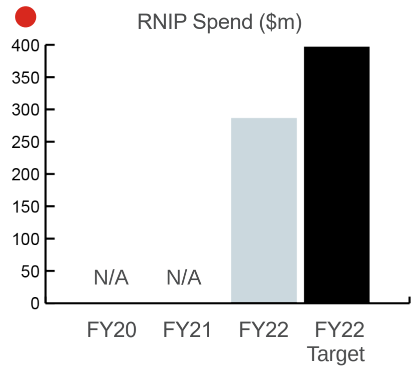
Sleeper Condition 5 ratings indicate that the sleeper no longer meets network performance standards and requires replacement.

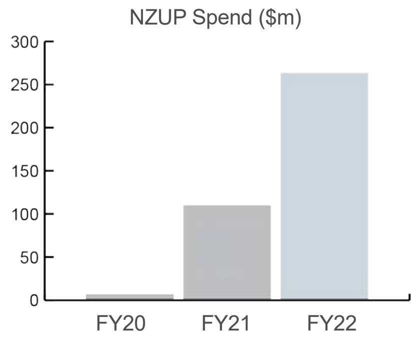
KiwiRail reports semi-annually against the network measures and transport outcomes included in the RNIP to Waka Kotahi, Ministry of Transport, and the Treasury. Our status against these targets is shown later in this document.

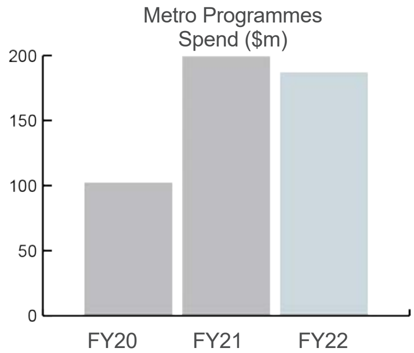
Outcomes and Benefits

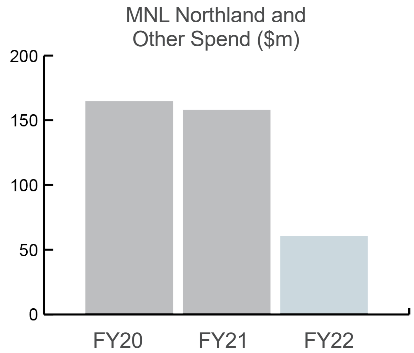
The benefits of investing in the rail network to achieve a resilient and reliable network include reduced travel time and congestion, reduced air pollution, reduced fuel use, reduced greenhouse gas emissions, reduced network maintenance and upgrades, and improved safety outcomes – reducing costs of serious injuries. A resilient and reliable rail network is the foundation on which Auckland and Wellington, as the two locations with metropolitan rail networks, can achieve emissions reduction by improving their rail public transport services. A resilient and reliable network, combined with KiwiRail renewing its rolling stock fleet, improves the quality of our service to freight customers, enabling mode shift from road to rail and leading to better

Financials and Funding









KEY:
- Achieved target performance
- Within 10 per cent of target
- Below 10 per cent of target

utilisation of the entire transport network to shift New Zealand goods and benefit the economy.

Rail Network Investment Programme

The Rail Network Investment Programme (RNIP) has brought a transformational shift for KiwiRail in how we can plan and deliver our core renewals and maintenance programme. It has allowed us to begin reducing the legacy of under investment, which is critical to delivering a resilient and reliable national rail network for New Zealand.

KiwiRail spent $287 million of the three-year RNIP programme during 2021/22 (Year One)[15]. The RNIP had estimated $391 million would be spent during Year One.

Supply chain issues, resource availability and Covid have all impacted the first year of RNIP delivery as the programme faced the same challenges as the wider construction industry. We continue to respond to these challenges. As an example, rail shipment delays meant we did not have the materials to complete the planned works, so we reprioritised and delivered a more than 20 per cent increase in sleeper renewals over our original plan. In addition, we increased our inventory and now have sufficient rail for the 2022/23 planned works. The public transport component of the RNIP was impacted by delivering the major improvement work in both networks, and therefore rephasing some RNIP work into subsequent years. For example, $25 million was intended to be spent in 2021/22 on the $57 million traction feed upgrade programme, however this is now beginning in 2022/23.

KiwiRail has a strong commitment to improving asset management practices. Through our continuous improvement programme, we are making good progress in delivering on our asset management KPIs.

Eight Public Transport Infrastructure projects are now underway through the RNIP and will enable future passenger growth in the Auckland and Wellington metro networks. The $151 million investment includes:

- An additional traction feed in West Auckland to support the increase in services with CRL (City Rail Link).
- The Auckland Integrated Rail Management Centre project enabling co-location and integrated operations of multiple rail organisations. The detailed business case was approved, and construction work has commenced.
- Infill signalling which installs additional signals to improve resilience and reliability on the Auckland metro network.
- Fencing to improve safety and security of the rail corridor.
- Strategic future planning for Auckland's longer-term 30-year programme business case.
- Initiating an investigation into the next phase of electronic train control for Auckland.
- A detailed business case for European Train Control System, which provides automatic train protection, for the Wellington metro network.

15- RNIP is funded through two NLTF activity classes: Rail Network ($282 million spent against an estimated spend of $348 million) and Public Transport Infrastructure ($5 million against an estimated spend of $12 million).

- A business case investigating the below rail investment needed for further northwards expansion of the Wellington metro network.

Video: *Rail network Investment Programme Canterbury 2022 Block of line*[16]

Rail Network Investment Programme Measures

Our transport outcomes targets reflect that it will take time to deliver these improvements. A more intense programme of renewals and maintenance requires more track access and will create additional network disruption in the short-term. The benefits from the improvements in the network's resilience and reliability combined with the arrival of our new rolling stock and ferries will see an improvement in service and associated benefits which will far outweigh this initial disruption.

Outcome Measures	Metric	Target	Status
KiwiRail Outcomes			
Grow volumes on rail	Mode share (% based on tonnes)	Rail mode share estimated to increase from 12% in 2020 to 14% total freight task by 2030	Achieved first year target.
Improved KiwiRail commercial performance	Above rail operating surplus Above rail operating surplus ratio	As per KiwiRail Statement of Corporate Intent	See Performance Reporting section (Page 22).
Avoided emissions and harmful pollutants	Reduced emissions/harmful pollutants	Increase from 236k CO2 emissions avoided p.a. to 306k p.a. by 2030	Achieved Year One target with an increase to 288k of C02 emissions avoided.
Improve value of rail	Value of Rail ($)	Increase from $1.7b in 2020 to $3.5b by 2030	Measured tri-annually to support the Rail Plan & GPS development.
Asset and Service Level measures			
All temporary speed restrictions (average TSRs) within target for priority routes	100% within target (s)	June 2024	Constrained by tamper availability which are required to complete works and remove the TSR. Tampers to address this issue are on order.
All temporary speed restrictions (average TSRs) stabilised for secondary routes	100% within target (s)	June 2024	KiwiRail's ability to achieve the first-year target was constrained by tamper availability which are required to complete works and remove the TSR. Tampers to address this issue are on order.

16- https://youtu.be/YuQ1Oyl4gKw

Outcome Measures	Metric	Target	Status
All Heat 40s (average Heat 40s) within target (s) for priority routes	100% within target (s)	June 2024	Achieved 90% in the first year.
All Heat 40s (average Heat 40s) stabilised for secondary routes	100% within target (s)	June 2024	Achieved 90% in the first year.
Mainline derailments due to infrastructure defects	5 average p.a.	June 2024	1 derailment.
Mainline derailments due to infrastructure defects	0	June 2031	On-track - see above.
Track Quality Index (average TQI) within target (s) for priority and secondary routes	100% within target (s)	June 2024	TQI was achieved in all our priority routes, but not on four secondary routes. The Ohai line did not meet the target due to rail shipment delays. Current performance is 80%.
Sleeper condition on priority routes	100% of condition 5 sleepers addressed*	June 2024	KiwiRail delivered a 31% completion against a target of 20%.
Sleeper condition on secondary routes	100% of condition 5 sleepers addressed*	June 2031	In year one, KiwiRail's focus was on priority routes, given delivery constraints.
Rail condition non-destructive testing (NDT) fault/defects on priority routes	<6 per km	June 2024	90% of priority routes achieved the first-year target, however one route detected NDTs of >6.
Rail condition NDT fault/defects on secondary routes	<6 per km	June 2031	Achieved in first year.
Rail condition on priority routes	100% of condition 5 rail addressed	June 2024	Behind - the rail programme was severely impacted by rail shipment delays, where possible KiwiRail completed other works.
Rail condition on secondary routes	100% of condition 5 rail addressed	June 2031	Behind - the rail programme was severely impacted by rail shipment delays, where possible KiwiRail completed other works.
Unplanned infrastructure outages (total minutes across services) by priority route	Improving trend	2022-2031	There was a reduction in infrastructure outages in the first year.
Structures risk reduction	Priority structures delivered to plan	June 2024	Behind against the first-year target due to consenting delays.
Structures condition (Structures Health Index)	Improving trend	June 2031	On-track
Network congestion assessment	Completed	June 2023	The assessment will be completed in 2022/23.

Outcome Measures	Metric	Target	Status
Number of level crossings in service	Decreasing number of level crossings	June 2024	There are five less level crossings than the prior year.
Yard asset improvement business case	Completed	June 2023	This business case is underway.
Resilience improvement business case	Completed	June 2023	This business case is underway.
Long Term Network Planning			
Deliver long term 30-year network development plan	Completed	June 2024	The 30-year network plan is underway.
Asset Management and Data Quality			
Asset Management Gap Analysis and Development of Asset Management Improvement Road Map to align with ISO55001	Completed	June 2022	Completed - The Asset Management Gap Analysis and Improvement Road Map have been completed and shared with Waka Kotahi.
Development of asset class strategies and updated Strategic Asset Management Plan	Completed	June 2022	The Strategic Asset Management Plan (first draft) has been completed. Asset class strategies (first draft) have been completed, with the Track asset class strategies to a second draft stage. These will be completed by June 2023.
Updated AMP to support the next RNIP and investment programme	Completed	June 2023	The updated Asset Management Plan work is underway.
Data Quality Gap Analysis and development of data quality improvement road map	Completed	June 2022	Data quality roadmap and data quality improvements are complete.
Updated condition records (currency and completeness) for critical asset classes	Completed	June 2022	Delayed due to resourcing constraints. KiwiRail has focussed on updating condition records for track assets only. The average age of track condition records reducing from 6.2 to 2.7 years.
Updated condition records (currency and completeness) for remaining asset classes	Completed	June 2024 (subject to road map)	These will be complete for the modelling of RNIP 2.0.

New Zealand Upgrade Programme

KiwiRail is the delivery agency for $2 billion of rail transport projects in the New Zealand Upgrade Programme (NZUP):

- Papakura to Pukekohe Electrification project – $375 million to electrify 19km between Papakura and Pukekohe, including installation of overhead equipment, a new traction power feed and signalling upgrades. $117 million of the project was delivered during the year, with an expected completion in 2024/25. Commencement of open route construction is expected to start in the first quarter of 2022/23.
- Wiri to Quay Park (W2QP) – $318 million to provide a third rail line to ease the bottleneck between Wiri and Westfield, increase capacity around Westfield Junction and segregate freight and commuter traffic between Ports of Auckland and Quay Park. $103 million delivered during the year, including significant work over Christmas while a Block of Line was in place. Completion is expected in 2024/25.The W2QP designation under the Notice of Requirement was also confirmed by Auckland Council.

Video: New Zealand Upgrade Programme Christmas 2021 Block of Line for Papakura to Pukekohe Electrification and the third main line between Wiri and Quay Park[17]

- Drury Rail Stations – $495 million to construct three new passenger rail stations, at Drury Central, Drury West and Paerata, and the associated bus interchange, park and ride facilities along with connector roads. $22 million of works delivered during the year, and completion is expected in 2025/26. Good progress was made on planning applications for the stations, and preparation for the Judicial Review hearing relating to the Drury West siting.
- Wellington Metro Upgrade Programme – $88 million to enable a safe and reliable increase in the frequency of train services at Wellington Railway Station, and $156 million for infrastructure upgrades to the Wairarapa Line to increase capacity and support a planned increase in the frequency of passenger services. $4 million of works delivered during the year, with both projects expected to be completed in 2025/26. Both projects are in the initiation phase with scheme design completed and procurement and delivery of detailed signal design in progress.
- Northland Package – we progressed the Detailed Business Case for the new Marsden Point Rail Link, as part of the $692 million for the Northland Package. The project is subject to Joint Ministers' approval of the business case and is expected to take up to five years from initiation to completion.

Metropolitan Rail Network Upgrade Programmes

Auckland metro growth, remediation, and City Rail Link readiness

In addition to the work underway on Papakura to Pukekohe electrification, Drury Stations and Wiri to Quay Park projects through the NZUP programme, we have continued:

- Delivering the Rail Network Growth Impact Management programme to ensure the Auckland metro network is keeping pace with patronage and freight growth (24 per cent complete, $40 million delivered during the year, with completion expected by 2025/26).
- Progressing the Auckland remediation programme to address the issue of rolling contact fatigue (66 per cent complete, $21 million delivered during the year, with completion expected by 2023/24).
- Undertaking Be Ready contract work to support City Rail Link Limited in the completion of the City Rail Link (67 per cent complete, $36 million delivered during the year with completion expected by 2024/25).

Wellington Metro growth and remediation; In addition to the NZUP projects above, we have made good progress on the remediation of the traction overhead lines, with project completion expected by end of 2022. We had very successful Christmas and Easter Block of Line with significant progress on tunnel, track, and bridges renewals across the region.

Provincial Growth Fund and Shovel Ready Projects

Northland line: KiwiRail progressed essential repair works on the North Auckland Line. Project completion has been delayed to October 2022 due to equipment and overseas supply chain issues. The project has already achieved the first objective of making the line 9'6" shipping container capable, with the next goal of upgrading the line to allow it to take a standard 18-tonne axle locomotive.

Shovel Ready projects: Both the West Coast Omoto Slip resilience project and the Drainage Improvements project were completed on time and on budget despite facing Covid-related challenges. The Drainage Improvements project saw 48 track worker trainees gain permanent employment with KiwiRail, and the Omoto project resulted in significantly improved resilience for the main road and rail connection to the West Coast.

17- https://www.youtube.com/watch?v=SCafFbqeDDQ

Investment Programme Summary

The following table includes aggregated totals across the major Government funded programmes for both Above Rail and Below Rail. There is some overlap, particularly with the RNIP supporting some major network programmes, however this provides the broadest overview of the multiple major programmes.

Programme	Encompasses	($M) 2021/22 Spend	($M)Total Programme Value	Funded by
Rail Network Investment Programme	Rail Network Activity Class • Network Maintenance and Operations Management • Network Renewals • Network and Yard Improvements Public Transport Infrastructure Activity Class • Auckland Metro – Improvements • Wellington Metro – Improvements • Control systems	287	4,906[18]	NLTF (including track user charge and Government budget contributions)
Northland	• Upgrades to rail line between Swanson and Otiria • Land purchase for the Marsden Point Rail Link • Design and business case for the Marsden Point Rail Link	49	719	NZUP, Kānoa
Auckland Metro Area	• Wiri to Quay Park • Papakura to Pukekohe electrification • Drury stations • City Rail Link readiness • General network enhancement	339	1,687	NZUP, Ministry of Transport, NLTF
Wellington Metro Area	• Track overhead line replacement • Network renewals • Trentham to Upper Hutt double tracking • Plimmerton turn back and new platform • Wellington approach realignment and safety improvements • Wairarapa passing infrastructure, platforms and signalling	93	643	NLTF, NZUP
Rolling Stock	• Locomotive and shunt replacement • Wagon replacement • Train safety enhancement • EF locomotive fleet refurbishment • Capital Connection and Scenic carriage refurbishment	211	1,785	Shareholder, NZUP, Kānoa
Mechanical Facilities	• Mechanical facility and depot upgrades at Woburn, Waltham, and Hillside • Other miscellaneous depot upgrades	38	313	Shareholder, Crown Investment Partners, Kānoa

18- 2021/22 to 2031/32 ten-year approved RNIP programme

Programme	Encompasses	($M) 2021/22 Spend	($M)Total Programme Value	Funded by
New Ferries and Terminals	• Two large rail enabled ferries • New port and terminal facilities in Wellington and Picton	33	1,450	KiwiRail, Shareholder, Port Marlborough, CentrePort
Resilience Works	• Omoto slope stability • Culvert and drainage upgrades	9	39	Kānoa, Crown Investment Partners
Freight Hubs	• Land purchase for the Central North Island Freight Hub • Ashburton Freight Hub	16	43	Kānoa, NZUP
Total		**1,075**	**11,585**	

KiwiRail is building reliability and resilience on its network

Board of Directors

David McLean
Chair

Attendance:
6/6 meetings

David has had a career as a lawyer and banker. He retired as CEO of Westpac NZ in June 2021. David is a member of the Council of Te Herenga Waka Victoria University of Wellington, the National Advisory Council on the Employment of Women, and is a former chair of the NZ Bankers Association, former co-Chair of Champions for Change, former chair, and Distinguished Fellow, of INFINZ, and former member of the council of Infrastructure NZ.

Sue McCormack
Deputy Chair

Attendance:
11/12 meetings

Sue practised as a corporate commercial lawyer for 35 years before retiring from her partnership at Mortlock McCormack Law in 2019. Sue served on the University of Canterbury's Council for 13 years and as Chancellor from 2018 to 2022. Her background assisted the University as it worked through its $1.2 billion post-earthquake construction programme. Following the Christchurch earthquakes and the rebuild she had a strategic and legal role in the CBD development and The Terrace development. She is a Chartered member of the New Zealand Institute of Directors, Judicial Officer of the Canterbury Earthquakes Insurance Tribunal, and a former director of the Lyttelton Port Company, NZ Symphony Orchestra, The Public Trust, and trustee of Canterbury Museum.

Bruce Wattie
Director

Attendance:
12/12 meetings

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.

Maxine Moana-Tuwhangai
Director

Attendance:
11/12 meetings

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.

Mike Williams
Director

Attendance:
12/12 meetings

Mike is CEO of the New Zealand Howard League, a long established penal reform charity dedicated to prisoner education, reducing offending, and assisting with positive reintegration into communities. A former New Zealand Labour Party President, Mike was previously a director of Genesis Energy, the New Zealand 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.

Rachel Pinn
Director

Attendance:
12/12 meetings

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.

NEW DIRECTOR

Maryan Street
Director

Attendance:
Not a director during 2021/22

Maryan was appointed to the KiwiRail Board in July 2022.

She has previously served on the Board of Housing NZ (2000-2005), including a period as Deputy Chair; as an establishment and then permanent member of the Centre for Housing Research Aotearoa/NZ; and as a government member of the Crown Forestry Rental Trust (2001-2005). She was the President of the New Zealand Labour Party from 1993-95. Before becoming a Member of Parliament in 2005, Maryan was a teacher, a union official, an academic and an industrial relations practitioner. She was Minister of Housing and of ACC, and Associate Minister of Tertiary Education and Economic Development in the fifth Labour Government (2007-2008). She has a BA (Hons) in English from Victoria University of Wellington and a Master of Philosophy with First Class Honours in Industrial Relations from Auckland University. She also has an AMusTCL in music theory.

FORMER DIRECTORS

The terms of former directors Noel Coom and Hazel Armstrong ended on 30 June 2022. Fiona Mules resigned as a director effective on 2 July 2021.

KiwiRail Executive

Peter Reidy
Chief Executuve

Peter re-joined KiwiRail as Chief Executive in August 2022. He had previously held the same position from 2014 to 2018, before holding the role of CEO Fletcher Construction from 2018-2022.

Prior to KiwiRail, Peter was CEO of Downer New Zealand, and then held senior leadership roles with Downer Group in Australia and Singapore, including Board roles on the KeolisDowner Joint Venture operating Yarra Trams in Melbourne, and Gold Coast Light Rail. He has also held senior leadership roles with Todd Energy and Freightways New Zealand. More recently, Peter was Co-Chair of the NZ Government Construction Accord.

Peter holds a Bachelor of Commerce from University of Auckland and has completed the CEO programme at Wharton University.

David Gordon
Chief Operating Officer - Capital Assets

David oversees KiwiRail's strategic capital projects. David joined KiwiRail in 2007 and before then he worked as a consultant in the transport infrastructure market, was Planning and Development head for Wellington International Airport, and a Senior Manager in the strategy consulting team of Ernst and Young. David is executive sponsor of KiwiRail's Rainbow Network.

David served as Acting Chief Executive from 13 January 2022 to 30 July 2022.

Helen Rogers
Group General Manager - Transformation

Helen leads KiwiRail's collaboration with government agencies on transport policy, funding and investment frameworks. She also oversees our ICT, Communications, People & Culture and Strategy functions, as well as the Scenic and Commuter business.

She joined KiwiRail in 2014 and has more than 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 and is the Chair of KiwiRail's Diversity and Inclusion Committee.

Helen served as Acting Deputy Chief Executive from 13 January to 30 July 2022.

Siva Sivapakkiam
Chief Operating Officer - Rail Operations

Siva is KiwiRail's Chief Operating Officer – Rail Operations, overseeing all operational parts of the business including commercial revenue, freight logistics, networks infrastructure, engineering, and rolling stock asset services, areas which account for around 3000 of KiwiRail's staff. Prior to that he was the Executive General Manager Operations, overseeing the Freight Logistics, Networks Infrastructure, and Engineering business groups.

Siva joined KiwiRail in 2015 and has worked in various leadership roles, including General Manager Operations – Upper North Island and North Island Networks Services Manager. Before moving to KiwiRail Siva had more than 15 years in the roading and construction industries both as a consultant and as a contractor.

Rod Lay
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. Rod has spent over 20 years in senior financial leadership roles working in the network transport and logistics industry, having worked at both Tranz Rail and Toll New Zealand. Rod is a qualified chartered accountant with CAANZ and joined the KiwiRail executive team in August 2019.

Walter Rushbrook
Executive General Manager - Interislander

Walter is the Executive General Manager Interislander leading the team providing a freight and passenger ship operation across Cook Strait. Prior to this he was the GM Strategic Projects and led the infrastructure recovery after the 2016 Kaikoura Earthquake for KiwiRail. Walter is senior engineer and manager with a large amount of experience with transport infrastructure, logistics/operations and preparing business cases. He has also led delivery of a large number of other major transport infrastructure projects and operations throughout New Zealand.

Olivia Poulsen
Executive General Manager - Property

Olivia is the Executive General Manager Property, overseeing property development and partnering, leasing, facilities management, resource management, crown land use and iwi engagement. She has been at KiwiRail since 2017 holding roles in the legal and property teams. Olivia previously worked in property and legal roles in both Australia and New Zealand, including five years at Auckland Airport working across their property, retail, and corporate portfolios.

KiwiRail Executive

Alastair Cumming
Group General Manager - Zero Harm

Alastair is currently the Group General Manager for Zero Harm and has been with KiwiRail more than 30 years with extensive experience across all parts of the organisation both at an operational and delivery level.

His various roles have included shunter, locomotive engineer and trainer, and more recently he has been Christchurch Terminal Ops Manager and Head of Strategic Change for Zero Harm.

He has added to his rail knowledge with a Post-Graduate Diploma in Rail Safety and is completing a Masters in Transport Safety Management.

Jonathon Earl
Group General Counsel

Jonathon has led KiwiRail's legal team since 2015, overseeing legal matters across the KiwiRail group, and providing company secretarial support to the KiwiRail Board. He has 20 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.

Robert Gibbes
Chief Operating Officer - Construction Delivery

Robert leads the KiwiRail construction team responsible for delivering the significant programmes of capital works - 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.

Sue Jensen
Group General Manager - People and Culture

Sue is the Group General Manager People and Culture, 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.

Garry Collings
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 23 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.

Nigel Wilson
Group General Manager - Communications (Acting)

Nigel leads our communications team which is responsible for internal and external communications, media relations, community engagement, brand, and graphic design.

He joined KiwiRail in 2016, following roles at Fonterra, Spark, Auckland Council and Bank of New Zealand. Nigel has a Bachelor of Arts, Bachelor of Science and a Post-Graduate Diploma in Business. He has more than 15 years' communications and brand experience in New Zealand and overseas.

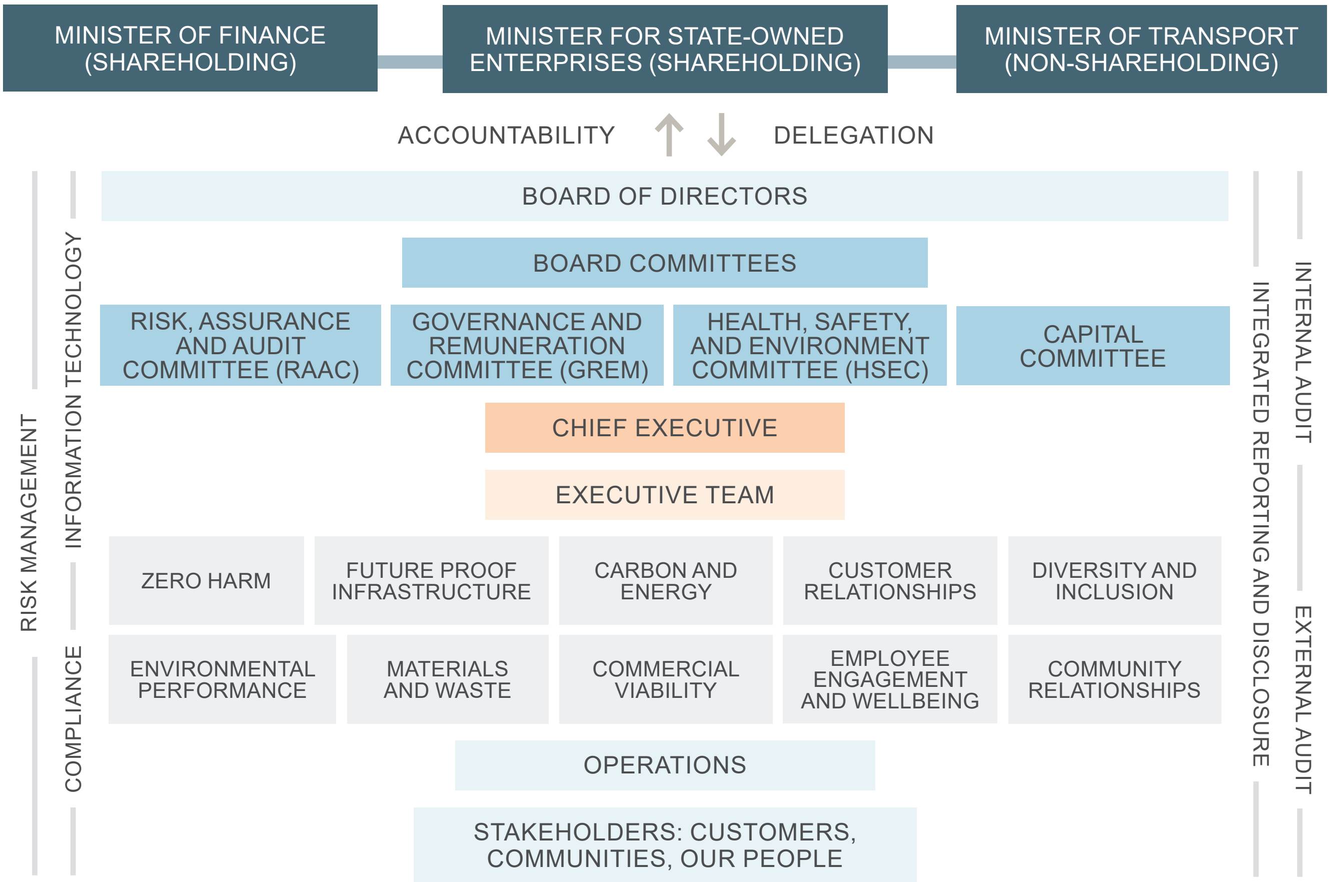
How We Are Governed

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.

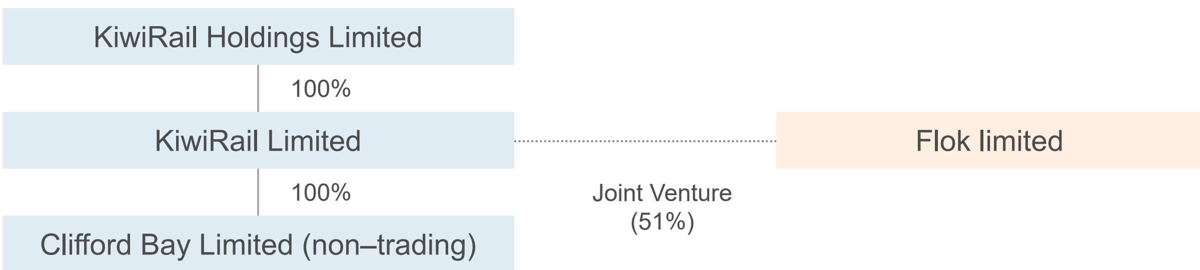
The expectations of the Shareholding Ministers for the governance of KiwiRail are communicated at least annually to the Board via the Letter of Expectations and set out in the Owner's Expectation document which is administered by the Treasury.

The role of the Board is to guide the strategic direction of KiwiRail and direct and oversee management. The Board establishes objectives and sets strategies to achieve those objectives, as described in the Statement of Corporate Intent. The Board, in the context of the approved policy, risk and compliance framework within the which the Group operates, monitors the performance of management and the Group against those strategies. The Board has delegated day-to-day management to the Chief Executive.

Accountability



Subsidiary structure



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 2022 the Group comprised KiwiRail Holdings Limited, and its subsidiaries as detailed in the diagram on the previous page.

Rail Network Mandate

KiwiRail leases railway land from the New Zealand Railways Corporation and owns the rail infrastructure and associated assets on railway land. KiwiRail maintains these assets for the benefit of all rail users, in line with the Rail Network Investment Programme (RNIP) approved by the Minister of Transport (on advice from Waka Kotahi and in consultation with Shareholding Ministers). The RNIP is funded by the National Land Transport Fund (NLTF). KiwiRail contributes to the NLTF through paying a Track User Charge. The RNIP is designed to lift the national network to a condition of resilience and reliability, to then support growth in metropolitan passenger rail and the share of freight hauled by rail.

Board Committees

KiwiRail has four Board Committees supporting director oversight of the company and its performance. Each Committee meets four times per year.

Risk, Assurance and Audit Committee (RAAC)

2021/22 members: Bruce Wattie (Chair), Hazel Armstrong, Maxine Moana-Tuwhangai

Current members: Bruce Wattie (Chair), Maxine Moana-Tuwhangai, Rachel Pinn, Maryan Street

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.

Governance and Remuneration Committee (GREM)

2021/22 members: David McLean (member and chair from 1 March 2022), Sue McCormack, Mike Williams (from 3 August 2021), Noel Coom (until 1 March 2022)

Current members: David McLean (Chair), Sue McCormack, Mike Williams

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.

Health, Safety, and Environment Committee (HSEC)

2021/22 members: Sue McCormack (Chair), Hazel Armstrong, Rachel Pinn (from 3 August 2021)

Current members: Sue McCormack (Chair), Rachel Pinn, Maryan Street

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.

Capital Committee

2021/22 members: Noel Coom (Chair), Maxine Moana-Tuwhangai, Bruce Wattie, Mike Williams

Current members: Bruce Wattie (Acting Chair), Maxine Moana-Tuwhangai, Mike Williams

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.

Engagement with Government

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, including Waka Kotahi, the Ministry of Transport, Treasury and other monitoring and policy agencies as required.

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 RAAC (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' Remuneration

Note 22 of the financial statements sets out what fees Directors earned during 2021/22.

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 Chief Executive (CE) and all executive roles (those reporting to the CE) are sized independently by Ernst and Young, executive remuneration advisors. Ernst and Young have been engaged by KiwiRail as executive remuneration advisors since 2014.

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

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

Greg Miller resigned as KiwiRail Group CEO effective 24 November 2021 and was paid a contractually entitled 6 months' salary in lieu of notice. Todd Moyle, Chief Operating Officer, then served as Acting Chief Executive until 12 January 2022. For performing the role of Acting Chief Executive, KiwiRail paid additional salary and benefits of $24,590 to Todd Moyle in 2021/22. David Gordon, Chief Operating Officer Capital Assets then served as Acting Chief Executive until 1 August 2022. For performing the role of Acting Chief Executive, KiwiRail paid additional salary and benefits of $62,815 to David Gordon in 2021/22.

Short Term Incentive scheme (STI)

KiwiRail did not pay any short-term incentives for the 2021/22 financial year as the operating surplus gateway for payment under the scheme were not achieved.

The Board considers that an STI scheme is appropriate to attract, retain, and incentivise performance of senior commercial employees. The STI scheme has been refined for the 2022/23 financial year. Refinements to the scheme are to focus the scheme to provide an incentive for out-of-the-ordinary performance, and include:

- Assessing an individual's contribution under three categories with equal weighting: business unit goals; individual goals; and behaviours – e.g. contribution to diversity, inclusion, engagement, and safety at KiwiRail.
- Establishing higher thresholds to pay the maximum amounts.
- Reducing the maximum potential payment under the scheme to 30 per cent for key executives (including the Chief Executive), and from 30 per cent to 20 per cent for most eligible roles.

The scheme is reviewed annually and is offered to the CE and selected senior leaders by the Board. Eligible employees are restricted to roles with significant accountabilities and where a strong ability to influence business outcomes exists.

There are two primary gateways which must be achieved for any STI to be paid. The first is an operating surplus gateway set by the Board and the second gateway is that there must be no fatality of an employee or contractor to the business.

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 specified KPIs which, in the case of the Chief Executive, have been signed off by the GREM committee and in the case of senior executives have been signed off by the Chief Executive in consultation with the GREM Committee.

Chief Executive's Remuneration

	Salary and benefits[19] ($)	Pay for performance ($)	Total remuneration ($)
2020/21	997,452	-	997,452
2021/22	1,385,177[20]	420,000[21]	1,805,177

19- Actual salary paid includes holiday pay paid per New Zealand legislation. Benefits include KiwiSaver. Actual amounts are before tax (gross). This table excludes amounts paid to Todd Moyle and David Gordon for services as Acting Chief Executive. Refer to the separate disclosure above.

20- Salary and benefits paid in 2021/22 to former Group CEO Greg Miller for the period to his resignation effective 24 November 2021 plus contractually entitled six months salary in lieu of notice and unused annual leave.

21- Pay for performance (STI) relates to Group CEO Greg Miller's performance during 2020/21.

Employee Remuneration

There were 2168 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 2022.

The number of people earning remuneration and benefits within bands of $10,000 above $100,000 per annum are below. 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.

1800-1810	1
920-930	1
820-830	1
740-750	1
670-680	1
600-610	1
580-590	1
540-550	1
510-520	1
500-510	1
490-500	1
480-490	1
440-450	1
430-440	1
420-430	1
400-410	4
390-400	2
370-380	1
360-370	4
350-360	5
340-330	2
330-340	3
320-330	2

310-320	4
300-310	1
290-300	4
280-290	8
270-280	5
260-270	3
250-260	12
240-250	11
230-240	18
220-230	20
210-220	20
200-210	43
190-200	22
180-190	43
170-180	64
160-170	80
150-160	109
140-150	144
130-140	209
120-130	340
110-120	440
100-110	530

Total employees earning in excess of $100,000	2168
Employees who are included but who are no longer at KiwiRail as at 30 June 2022	142
Net total employees earning in excess of $100,000 and employed at KiwiRail as at 30 June 2022.	2026

Performance Reporting

KiwiRail publishes a comprehensive list of key performance indicators (KPIs) in our Statement of Corporate Intent (SCI), which we report against through our annual report.

The KPIs below reflect the targets established in the 2022-2024 SCI. The Performance section of this annual report highlights KPIs which measure the performance and outcomes of our business units and network function.

Key Performance Indicators

	30 JUNE 2022 ACTUAL	30 JUNE 2022 TARGET
Financial Capital		
ABOVE RAIL		
Revenue ($m)[22]	713	666-682
Freight revenue ($m)	501	439-445
Tourism revenue ($m)	48	76-86
Property & Corporate revenue ($m)	63	59
Operations revenue ($m)	101	92
Operating surplus ($m)	134	147-162
Operating margin (%)	19	22-24
Freight Net Tonne Kilometres (million)	4,178	4,200
Yield of property portfolio (%)	5	8
Relationship Capital		
ABOVE RAIL		
Tourist passengers carried (million)	0.4	1
BELOW RAIL		
Commuter journeys enabled (million)	15	30
ALL OF KIWIRAIL		
Number of new partnerships (number)	5	4
Assets Capital		
ABOVE RAIL		
Capital Expenditure (Core) ($m)	180.0	206.6
On-Time Performance – Freight Premier (%)	86	90
Reliability – Locomotive Mean Distance Between Failures (thousands kms)	53	50
On-Time Performance – Interislander – arrival within 15 mins of scheduled time (%)	73	88
Reliability – Ship services to advertised sailings (%)	79	98
Locomotive availability (%)	77	82
Average age of rolling stock – Locomotives (number)	25.6	25.7
Average age of rolling stock – Wagons (number)	24.0	20.0
BELOW RAIL		
Capital Expenditure (RNIP funded) ($m)	148.7	231.4
All temporary speed restrictions (average TSRs) within target(s) for priority routes[23]	40% within target(s)	80% within target(s)

22- A range was presented in the 2022-2024 Statement of Corporate Intent reflecting uncertainty around the ongoing impact of Covid.

23- These measures come from the Rail Network Investment Programme which can be found here: https://www.kiwirail.co.nz/what-we-do/projects/rail-network-investment-programme/

	30 JUNE 2022 ACTUAL	30 JUNE 2022 TARGET
All Heat 40s (average Heat 40s) within target(s) for priority routes[24]	90% within target(s)	80% within target(s)
Track Quality Index (average TQI) within target(s) for priority and secondary routes[24]	80% within target(s)	90% within target(s)
Sleeper condition rating – 100% of condition five sleepers addressed in priority routes[24]	31% of condition five sleepers addressed	20% of condition five sleepers addressed
ALL OF KIWIRAIL		
Capital Expenditure – Strategic Projects ($m)[24]	796.2	820.3
Achievement of major milestones	Commissioning of the first refurbished EF is underway	First refurbished EF re-enters service
	Delayed to 2022/23 due to supply chain issues (install turnouts), availability of work train (locomotives and locomotive engineers) to recover rail lying trackside and track access for rail grinding. Rail Destress 100% Turnout remediation (replacement parts via supply chain impacted by Covid) 100% Turnout replacement 77% Rail Recovery 56% Progress impacted by Covid: Supply chain – await offshore material supplies Staff – absent by various impacts of Covid	Auckland Metro Recovery work bank completed
People Capital		
ALL OF KIWIRAIL		
Employee Net Promoter Score	1	30
Grow our younger employee demographic (% of total workforce under 30 years old)	17.5	16
Women in the workforce (%)	18	20
Safety, Health & Environment Work Conversations (number)	19,150	15,000
Critical Control Verifications (number)	5,538	6,000
Safety, Health & Environment Hazard, and Near miss reporting (number)	2,366	4,000
Safety, Health & Environment High Risk Events (number)	50	69
Total Recordable Injury Frequency Rate – TRIFR (number)	24.0	25.0
Skills and Know-How Capital		
ALL OF KIWIRAIL		
Net digitisation benefits ($m)	7.5	4.3
E-learning programmes run (number)	39,637	34,000
Environment Capital		
ALL OF KIWIRAIL		
Rail Freight Carbon Intensity (grams CO_2-e emissions per net tonne kilometre)	26.6	26.2
Truck Avoidance (million)	1.14	1.14

24- Strategic Projects excludes the RNIP and covers Rolling Stock and Mechanical Facilities, Project iReX, NZUP, PGF and other capital projects.

Required Information

	30 JUNE 2022 ACTUAL	30 JUNE 2022 TARGET
Shareholder Return Measures		
Total Shareholder Return	n/a	n/a
Return on equity (%)	(28)	2
Profitability/Efficiency Measures		
Return on invested capital (%)	(29)	2
Operating margin – above rail (%)	19	22-24
Leverage/Solvency Measures		
Shareholders' funds to total assets (%)	74	83
Debt to EBITDA	(1.0)	(1.5)
Gearing Ratio (%)	2	1
Interest Cover	344.5	28.0
Growth Measures		
Capital replacement	7.1	8.1
Revenue growth – above rail (%)	8	3
Underlying EBITDA growth – above rail (%)	(7)	13

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 - Grants (M72) (A26)

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 appropriation decreased by net $18.042 million to $8.958 million for 2021/22 due to:

- $22.042 million transfer from 2021/22 to 2022/23 because of changes to the initial forecast after further progress on the design and from construction market feedback for the wagon assembly plant at Hillside Road, Dunedin.
- This decrease was partially offset by $4 million carried forward from 2020/21 to 2021/22.

In Principle Expense Transfer from 2021/22 to 2022/23 for $6.375 million unspent portion of appropriation.

	2022 Actual	2022 Budget	2022 Supplementary	2022 Final Budget
Amount of Appropriation ($000)	2,583	27,000	(18,042)	8,958
Assessment of Performance: Work is carried out in line with the agreed outcomes.	75%			Achieved

Outcome of investment: The wagon assembly plant at Hillside, Dunedin, is a multi-year project and is on-track to increase employment and youth opportunities and rebuild industry capability within the agreed timeframe. 6 out of 8 milestones delivered in 2021/22.

Rail - Maintaining an Electric Locomotive Fleet (M72) (A26)

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

Supplementary: This multi-year appropriation decreased by net $12.453 million to $10.912 million due to:

- $14.264 million transfer from 2021/22 to 2022/23 because of delays in achievement of milestones due to Covid-related factors. This amount of funding is being transferred into the new Rail - Grants multi-year appropriation from 1 July 2022.
- This decrease was partially offset by $1.811 million carried forward from 2020/21 to 2021/22.

	2022 Actual	2022 Budget	2022 Supplementary	2022 Final Budget
Amount of Appropriation ($000)	10,587	23,365	(12,453)	10,912
Assessment of Performance: Work is carried out in line with the agreed outcomes	50%			100%

Outcome of investment: Enabled KiwiRail to maintain the capabilities to refurbish and commission electric locomotives. 2 out of 4 milestones delivered.

Rail - Maintenance and Renewal of the Rail Network (M72) (A26)

This appropriation is limited to funding KiwiRail Holdings Limited for the expenditure included in the approved Rail Network Investment Programme.

Supplementary: This appropriation increased by net $123.792 million to $360.092 million for 2021/22 due to:

1. $154.600 million transfer from the National Land Transport Programme Capital PLA to reflect the amount of the approved Rail Network Investment Programme to be funded directly from Land Transport revenue.
2. This increase is partially offset by $30.808 million transferred from 2021/22 to 2022/23 due to delays in the final approval of business cases and rephasing of expenditure to align with terms of signed contracts.

In Principle Expense Transfer from 2021/22 to 2022/23 for $73.487 million unspent portion of appropriation.

	2022 Actual	2022 Budget	2022 Supplementary	2022 Final Budget
Amount of Appropriation ($000)	286,605	236,300	123,792	360,092
Assessment of Performance: Work is carried out as per the agreed programme	80%			100%

Outcome of investment: Enabled KiwiRail to carry out network maintenance, management, renewal, and improvement work on the national rail network In line with Rail Network Investment Programme.

Auckland City Rail Link - Operating (M72) (A26)

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

Supplementary: This appropriation increased by net $0.263 million to $2.287 million for 2021/22 due to:

- $0.222 million funding from the 2022/23, 2023/24 and 2024/25 financial years being transferred to 2021/22 and
- $0.041 million carried forward from 2020/21 to 2021/22 from underspends in the appropriation in 2020/21 year.

	2022 Actual	2022 Budget	2022 Supplementary	2022 Final Budget
Amount of Appropriation ($000)	2,418	2,024	263	2,287
Assessment of Performance: Work is carried out as per the agreed programme	100%			100%

Outcome of investment: 8 out of 8 milestones delivered.

KiwiRail Holidays Act Remediation (M72) (A26)

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

Supplementary: This appropriation decreased by net $1.100 million to nil in 2021/22 due to:

- $1.129 million transferred from 2021/22 to 2022/23 as KiwiRail continues to locate affected former staff under its Holidays Act remediation obligations.
- This decrease is partially offset by $0.029 million carried forward from 2020/21 to 2021/22 from underspends in the appropriation in the 2020/21 year.

	2022 Actual	2022 Budget	2022 Supplementary	2022 Final Budget
Amount of Appropriation ($000)	-	1,100	(1,100)	-
Assessment of Performance: Remediation payments are made for non-compliance with the Holidays Act 2003	Not Applicable			Achieved

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

Rail - Railway Safety and Public Policy Projects (M72) (A26)

This appropriation is limited to public safety works and public policy rail initiatives.

	2022 Actual	2022 Budget
Amount of Appropriation ($000)	3,770	3,770
Assessment of Performance: A safer railway system and public policy projects are carried out in line with the programme.	Achieved	Achieved

Outcome of investment: Undertaken public policy projects such as level crossing capital upgrades and improvements, corridor fencing / anti-trespass, vegetation removal throughout the rail network, support of Heritage Rail access, as well as funding of Rail Safety week, Roadshows and Safety marketing.

Shovel ready project funding - Rail (M72) (A26)

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

Supplementary: This appropriation increased by $1.661 million to $5.661 million in 2021/22 due to a carry forward from 2020/21 to 2021/22 as a result of unplanned complex design changes shifting milestones and cost phasing for the shovel-ready rail infrastructure projects.

	2022 Actual	2022 Budget	2022 Supplementary	2022 Final Budget
Amount of Appropriation ($000)	5,634	4,000	1,661	5,661
Assessment of Performance: Work is carried out as per the agreed programme.	100%			100%

Outcome of investment: Completion of Omoto resilience project.

Rail – KiwiRail Equity Injection (M72) (A26)

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

Supplementary: This appropriation increased by $4.153 million to $10.853 million for 2021/22 due to funding being carried forward from 2020/21 to 2021/22 due to delays in property sales by the New Zealand Railways Corporation.

In Principle Expense Transfer from 2021/22 to 2022/23 for $10.849 million unspent portion of appropriation.

	2022 Actual	2022 Budget	2022 Supplementary	2022 Final Budget
Amount of Appropriation ($000)	4	6,700	4,153	10,853
Assessment of Performance: Property transactions are carried out in line with agreed outcomes.	0%			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 net $136.240 million to $616.478 million for 2021/22 due to:

- $241.943 million transferred from 2021/22 to 2022/23 to align funding with the updated project schedules after detailed planning for a number of projects including the new interisland ferry assets, work on the Waltham maintenance facility, and railway rolling stock investment.
- This decrease was partially offset by:
    1. $66.292 million increase due to approved changes to the KiwiRail projects delivered under the New Zealand Upgrade Programme.
    2. $36.700 million carried forward from 2020/21 to 2021/22 due to the rephasing of funding for the new interisland ferry assets.
    3. $2.500 million transfer from the New Zealand Upgrade Transport Projects - Tagged Capital Contingency to address a funding shortfall for the Ashburton Fairfield Freight Hub project.
    4. $0.211 million transferred from the Auckland City Rail Link appropriation to fund KiwiRail's capital costs in preparing for the delivery of the City Rail Link.

In Principle Expense Transfer from 2021/22 to 2022/23 for $2.721 million unspent portion of appropriation.

	2022 Actual	2022 Budget	2022 Supplementary	2022 Final Budget
Amount of Appropriation ($000)	613,757	752,718	(136,240)	616,478
Assessment of Performance: Capital is invested in the New Zealand rail system as approved by shareholding Ministers.	100%			100%

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

Rail - KiwiRail Equity Injection for Transfer of Auckland City Rail Link Assets (M72) (A26)

This appropriation is limited to equity injections to KiwiRail Holdings Limited for the transfer of assets from City Rail Link Limited.

Supplementary: This is a new appropriation of $200 million for 2021/22 to achieve the transfer of ownership of Auckland City Rail Link assets to KiwiRail Holdings Limited.

	2022 Actual	2022 Budget	2022 Supplementary	2022 Final Budget
Amount of Appropriation ($000)	151,254	-	200,000	200,000
Assessment of Performance: Auckland City Rail Link assets transferred to KiwiRail Holdings Limited.	Achieved			Achieved

Outcome of investment: Enabled KiwiRail to give effect to the transfer of ownership of Auckland City Rail Link assets to KiwiRail Holdings Limited

Tuawhenua Provincial Growth Fund - Transport Projects (M72) (A26)

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 regions.

Supplementary: Carried forward from 2021/22 to 2022/23 and outyears to align the funding profile with the more detailed planning of projects for Marsden Point Rail Link, Central North Island hub and Tourism.

In Principle Expense Transfer from 2021/22 to 2022/23 for $0.007 million unspent portion of appropriation.

	2022 Actual	2022 Budget	2022 Supplementary	2022 Final Budget
Amount of Appropriation ($000)	25,743	34,800	(9,050)	25,750
Performance Measure: Work is carried out as per the agreed programme	50%			100%

Outcome of investment: 2 out of 4 milestones delivered.

Enabling Infrastructure Projects

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

In Principle Expense Transfer from 2021/22 to 2022/23 for $5.7 million unspent portion of appropriation.

	2022 Actual	2022 Budget	2022 Supplementary	2022 Final Budget
Amount of Appropriation ($000)	21,972	27,672	-	27,672
Performance Measure: Work is carried out as per the agreed programme	79%			100%

Outcome of investment: North Auckland Line.

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.

Supplementary: Drainage. $0.129 million in-principle expense transfer from 2020/21 (less than 1% of 2020/21 spend) for the multi-year infrastructure programme

	2022 Actual	2022 Budget	2022 Supplementary	2022 Final Budget
Amount of Appropriation ($000)	4,129	4,000	129	4,129
Performance Measure: Work is carried out as per the agreed programme	100%			100%

Outcome of investment: 1 out of 1 milestone delivered

Financial Statements

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

	Note	GROUP 2022	GROUP 2021 (restated)
		$m	$m
Operating revenues	2	851.0	709.5
Operating expenses	3	(717.1)	(618.4)
Operating surplus		**133.9**	**91.1**
Capital grants	4	348.9	308.0
Depreciation and amortisation expenses	8(a), 8(b), 20	(165.5)	(140.4)
Foreign exchange and commodity losses	5	(7.5)	(2.0)
Impairment	8(c), 13, 27	(777.2)	(493.2)
Insurance proceeds		13.5	93.0
Movement in value of investment properties	13	-	8.6
Net finance income/(expenses)	6	0.4	(1.2)
Other income		1.4	9.0
Other costs – Kaikoura earthquake		-	(1.0)
Net (deficit) before taxation		**(452.1)**	**(128.1)**
Income tax expense	7	-	-
Net (deficit) after taxation		**(452.1)**	**(128.1)**
Other comprehensive income/(loss)			
Items that can be reclassified into net surplus/deficit:			
Gains/(losses) from cash flow hedges		109.6	(38.2)
Items that cannot be reclassified into net surplus/deficit:			
Building revaluation	8(c)	(0.1)	(0.2)
Loss on share investment		(0.1)	(0.1)
Total comprehensive (loss)		**(342.7)**	**(166.6)**

The accompanying notes form part of these financial statements.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2022

	Note	GROUP 2022	GROUP 2021 (restated)	GROUP 1 July 2020[1]
		$m	$m	$m
Current assets				
Cash and cash equivalents	9	160.2	309.4	285.0
Short-term deposits	9	10.0	50.0	40.0
Trade and other receivables	10	185.9	144.7	112.7
Inventories	11	120.2	95.8	87.1
Financial assets	12	29.1	1.9	3.5
		505.4	**601.8**	**528.3**
Non-current assets				
Property, plant and equipment	8(a), 27	1,514.6	1,237.0	974.9
Right of use assets	20	57.9	86.4	101.8
Investment property	13	98.7	95.4	87.3
Investment in joint venture	14	-	1.1	1.1
Intangible assets	8(b)	7.4	0.2	0.9
Financial assets	12	60.2	6.6	0.4
Trade and other receivables	10, 27	216.3	123.2	10.4
		1,955.1	**1,549.9**	**1,176.8**
Total assets		**2,460.5**	**2,151.7**	**1,705.1**
Current liabilities				
Trade and other liabilities	15	356.3	422.7	196.6
Employee entitlements	16	117.0	96.6	104.6
Financial liabilities	12	34.1	88.2	231.5
Provisions	17	10.4	10.7	8.6
		517.8	**618.2**	**541.3**
Non-current liabilities				
Employee entitlements	16	43.7	46.9	48.9
Financial liabilities	12,20	83.4	93.7	124.5
		127.1	**140.6**	**173.4**
Total liabilities		**644.9**	**758.8**	**714.7**
Equity				
Share capital	23	3,470.5	2,679.7	2,088.0
Retained earnings		(1,739.8)	(1,262.3)	(1,111.7)
Asset revaluation reserve		17.0	17.1	17.4
Cash flow hedge reserve		68.1	(41.5)	(3.3)
Share revaluation reserve		(0.2)	(0.1)	-
Total equity		**1,815.6**	**1,392.9**	**990.4**
Total liabilities and equity		**2,460.5**	**2,151.7**	**1,705.1**

David McLean
Chair
27 September 2022

Bruce Wattie
Chair of the Risk, Assurance and Audit Committee and Director
27 September 2022

1- Refer to Note 27 Restatement of comparatives

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 2022

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 2020 (as previously reported)		**2,088.0**	**(1,045.6)**	**17.4**	**(3.3)**	**-**	**1,056.5**
Impact of comparative restatement	27	-	(66.1)	-	-	-	(66.1)
As at 30 June 2020 (restated)		**2,088.0**	**(1,111.7)**	**17.4**	**(3.3)**	**-**	**990.4**
Net (deficit) for the period		-	(128.1)	-	-	-	(128.1)
Other comprehensive income/(loss)		-	0.1	(0.3)	(38.2)	(0.1)	(38.5)
Total comprehensive income/ (loss)		**-**	**(128.0)**	**(0.3)**	**(38.2)**	**(0.1)**	**(166.6)**
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 (restated)		**2,679.7**	**(1,262.3)**	**17.1**	**(41.5)**	**(0.1)**	**1,392.9**
Net (deficit) for the period		-	(452.1)	-	-	-	(452.1)
Other comprehensive income/(loss)		-	-	(0.1)	109.6	(0.1)	109.4
Total comprehensive income/ (loss)		**-**	**(452.1)**	**(0.1)**	**109.6**	**(0.1)**	**(342.7)**
Transactions with owners							
Capital investment	23	790.8	-	-	-	-	790.8
Crown appropriation - land transactions	18	-	(25.4)	-	-	-	(25.4)
As at 30 June 2022		**3,470.5**	**(1,739.8)**	**17.0**	**68.1**	**(0.2)**	**1,815.6**

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 2022

	Note	GROUP 2022	GROUP 2021
		$m	$m
Cash flows from operating activities			
Receipts from customers		717.6	656.7
Receipts from the National Land Transport Fund		106.8	-
Receipt of Holiday Act Remediation Appropriation		-	27.9
Interest received		3.8	3.8
Payments to suppliers and employees		(764.1)	(561.0)
Payments for interest on borrowings		(2.5)	(3.3)
Payments for interest on leases		(3.0)	(3.3)
Net cash from operating activities	21	**58.6**	**120.8**
Cash flows from investing activities			
Sale of property, plant and equipment		0.4	0.5
Capital grant receipts		316.7	330.1
National Land Transport Fund receipts		154.3	-
Insurance proceeds		11.1	93.0
Maturity of short-term deposits		50.0	-
Purchase of property, plant and equipment and investment properties		(1,138.4)	(958.4)
Purchase of intangibles		(30.2)	(25.2)
Transfer to short-term deposits		(10.0)	(10.0)
Net cash used in investing activities		**(646.1)**	**(570.0)**
Cash flows from financing activities			
Crown capital investment		639.5	549.4
Proceeds from NZRC land sales		-	0.1
Advance of loans		25.0	-
Payment for NZRC land acquisitions		(25.4)	(22.7)
Repayment of loans		(40.3)	(30.8)
Lease payments		(28.5)	(22.4)
Crown capital repayment		(132.0)	-
Net cash from financing activities		**438.3**	**473.6**
Net (decrease)/increase in cash and cash equivalents		**(149.2)**	**24.4**
Cash and cash equivalents at the beginning of the year		309.4	285.0
Cash and cash equivalents at the end of the year	9	**160.2**	**309.4**

The accompanying notes form part of these financial statements.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

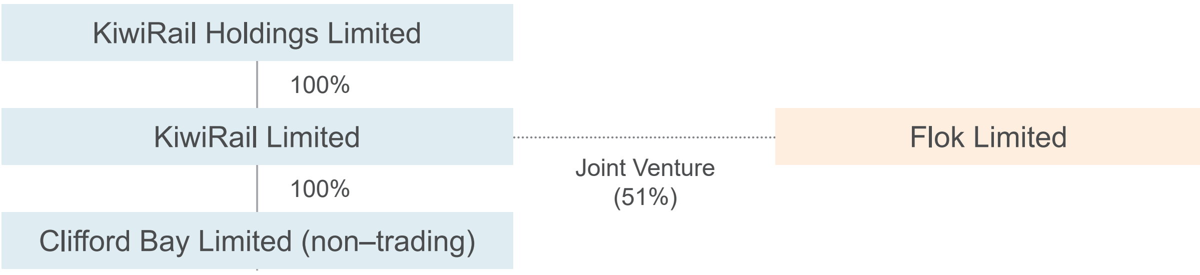
NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

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:

- Ownership and operation of the national rail network
- End-to-end freight transport supply chain services that connect customers with global and domestic markets
- Ferry services (forming the 'bridge' between the North and South Islands) for rail and road freight and for passengers and their vehicles
- Support for rail passenger services in metropolitan areas and long-distance services for both domestic and international tourist markets
- Management and development of property for rail operations and appropriate third-party land use

The financial statements of the Group are for the year ended 30 June 2022 and were authorised for issue by the Board of Directors on 27 September 2022.

(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 meet the requirements of the State-Owned Enterprises Act 1986, 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; and
- on a going concern basis.

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 2022

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.

In determining the Group's for-profit basis of preparation, the Board of Directors has considered XRB A1 Application of the Accounting Standard Framework (XRB A1). The Board of Directors has used judgement in assessing the indicators in the application guidance of XRB A1, including the objectives of the Group and the nature of the benefits the Group provides. Under the State-Owned Enterprises Act 1986 the principal objective of KHL is to operate as a successful business, including being as profitable and efficient as comparable businesses that are not owned by the Crown. On balance, after consideration of these indicators, the Board of Directors has determined the for-profit designation applies.

As a result of the for-profit designation, the Group values its property, plant and equipment on a cash generating basis, which results in substantial impairment (refer Note 8). In the Financial Statements of Government, a public benefit entity, the rail infrastructure assets are valued on a non-cash generating basis using optimised depreciated replacement cost (ODRC) at $9,189m (2021: $7,658m) compared to a carrying value of $324m (2021: $295m) per Note 8. Under the ODRC valuation basis, the Group's rail network assets are not impaired. The ODRC valuation currently excludes retaining walls, stabilisation works, and erosion protection structures due to limited data. KiwiRail is continually reviewing and improving data collection processes to improve quality and accuracy of the ODRC valuation.

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

(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, application of further judgement has been required in some areas.

(g) RAIL REVIEW

The Rail Review, led by the Ministry of Transport, alongside the Group, the NZ Transport Agency (Waka Kotahi), the Treasury, Auckland Transport, Auckland Council and Greater Wellington Regional Council has defined and developed the future of rail in New Zealand.

The overall purpose of the Rail Review is to ensure a sustainable funding model for rail and to integrate rail into the transport system, so rail is planned, funded and maintained alongside other transport modes.

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

The first Rail Network Investment Programme (RNIP) came into effect on 1 July 2021 following the passage of the Land Transport (Rail) Legislation Bill in June 2020 and the publication of the New Zealand Rail Plan in May 2021.

The RNIP enables the Group to access funding from the National Land Transport Fund (NLTF) to restore and maintain the rail network infrastructure, or "Below Rail" operations, to a resilient and reliable standard. This new funding model has resulted in a substantial change to the Group's financial results. The principal changes are:

- Funding for operational Below Rail activities:
  - Recognised as an operating grant and disclosed under Operating Revenues (refer Note 2)
  - Disclosed under cash flows from operating activities in the Statement of Cash Flows
  - Expenditure relating to Below Rail operational activities is included in Operating Expenses (refer Note 3)
- Funding for Below Rail capital expenditure:
  - Recognised as a capital grant and disclosed under Capital Grants (refer Note 4)
  - Disclosed under cash flows from investing activities in the Statement of Cash Flows.

The final deliverable for the Rail Review was the completion of a review of entity form. The Government progressed this review and, on advice by officials, responsible Ministers concluded KiwiRail should remain a State Owned Enterprise.

2- Refer to Note 27 regarding restatement of comparatives

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

2. OPERATING REVENUES

	GROUP 2022	GROUP 2021
	$m	$m
Freight	463.9	392.9
Interislander	106.4	129.0
Property	59.5	56.1
Scenic & Commuter	11.2	16.2
Other	28.5	28.7
Funding from the National Land Transport Fund	117.6	-
Networks	63.9	58.7
Holidays Act Remediation Appropriation	-	27.9
Total operating revenues	**851.0**	**709.5**

Revenue recognition

Revenue is recognised when or as performance obligations are satisfied by transferring control of goods or services to the customers at the 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.

3. OPERATING EXPENSES

	GROUP 2022	GROUP 2021
	$m	$m
Salaries and wages	490.8	431.2
Restructuring	0.7	0.1
Defined contribution plan employer contributions	17.8	14.7
Other employee expenses	16.7	10.3
Total employee expenses	**526.0**	**456.3**
Amount capitalised	(164.7)	(140.4)
Total employee costs expensed	**361.3**	**315.9**
Materials and supplies	133.4	137.8
Fuel and traction electricity	103.3	67.4
Lease and rental costs	18.5	15.8
Incidents and insurance	34.5	28.5
Contractors' expenses	7.0	6.7
Audit fees	0.4	0.4
(Recovery from)/impairment of receivables	-	(0.3)
Directors' fees (Note 22)	0.4	0.4
Loss/(gain) on disposal of property, plant and equipment	1.6	(0.7)
Other expenses	56.7	46.5
Total operating expenses	**717.1**	**618.4**

Audit fees include other assurance services of $nil (2021: $15,950).

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

4. CAPITAL GRANTS

	GROUP 2022	GROUP 2021
	$m	$m
Ministry of Transport	35.6	156.4
National Land Transport Fund	113.5	-
Local and Regional Councils	85.9	93.1
City Rail Link	22.7	24.7
Auckland Transport	84.7	22.2
Ministry of Business, Innovation and Employment	2.4	2.5
Waka Kotahi	2.3	2.3
Other	1.8	6.8
Total capital grant income	**348.9**	**308.0**

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 as grant income in the same period as the expenditure for which the grant is intended to compensate.

5. FOREIGN EXCHANGE AND COMMODITY GAINS AND LOSSES

	GROUP 2022	GROUP 2021
	$m	$m
Net realised foreign exchange and commodity (losses)/gains	(16.2)	0.6
Net change in the fair value of derivatives	8.7	(2.6)
Total foreign exchange and commodity losses	**(7.5)**	**(2.0)**

Foreign exchange and commodity gains/(losses) on fuel related contracts of $4.0m (2021: ($0.4m)) 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 rate 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 translated 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.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

6. NET FINANCE INCOME/(EXPENSES)

	GROUP 2022	GROUP 2021
	$m	$m
Finance income		
Interest income on bank deposits	3.3	3.5
	3.3	3.5
Less: Finance expenses		
Interest expense on borrowings	(2.0)	(3.0)
Interest expense on leases	(3.0)	(3.3)
Net change in fair value of interest rate swaps	2.1	1.6
	(2.9)	(4.7)
Net finance income/(expenses)	**0.4**	**(1.2)**

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.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

7. TAXATION (continued)

(c) Tax benefit/(expense)

	GROUP 2022	GROUP 2021 (restated)
	$m	$m
Components of tax expense		
Current tax expense	-	-
Deferred tax expense	-	-
Tax benefit/(expense)	**-**	**-**
Reconciliation between tax expense and accounting surplus		
(Deficit) before tax	(452.1)	(128.1)
Tax at 28%	(126.6)	(35.9)
Tax effect of:		
Non-deductible expenditure	1.4	0.3
Other temporary differences	125.2	35.6
Tax benefit/(expense)	**-**	**-**

The Group has an unrecognised deferred tax asset of $1,285.7m (2021: $1,107.6m) arising from deductible temporary differences of $3,105.2m (2021: $2,294.9m) and unused tax losses of $1,486.5m (2021: $1,660.8m).

Imputation credits

The Group has formed an imputation group. The Group has access to $1.2m imputation credits (2021: $1.2m imputation credits).

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

8. NON-FINANCIAL ASSETS

(a) PROPERTY, PLANT AND EQUIPMENT

2022	Buildings	Railway Infrastructure	Rolling Stock	Ships	Plant & Equipment	Assets Under Construction	Total
Cost/Valuation	$m	$m	$m	$m	$m	$m	$m
Balance at 1 July 2021 (restated)	**55.4**	**295.4**	**462.8**	**318.8**	**286.8**	**762.0**	**2,181.2**
Additions	21.9	223.3	93.0	14.1	30.1	762.3	1,144.7
Disposals	-	-	(0.1)	-	(0.7)	-	(0.8)
Revaluation	(0.1)	-	-	-	-	-	(0.1)
Impairment	(2.3)	(249.8)	-	-	-	-	(252.1)
Impairment Reversal	-	55.3	82.8	-	-	-	138.1
Balance at 30 June 2022	**74.9**	**324.2**	**638.5**	**332.9**	**316.2**	**1,524.3**	**3,211.0**
Accumulated depreciation and impairment							
Balance at 1 July 2021	**3.5**	**0.1**	**77.0**	**191.4**	**181.0**	**491.2**	**944.2**
Depreciation expense	5.5	28.8	41.5	35.4	24.7	-	135.9
Disposals	-	-	(0.1)	-	(0.3)	-	(0.4)
Revaluation	-	-	-	-	-	-	-
Impairment	-	(6.3)	-	-	80.5	631.0	705.2
Impairment Reversal	-	(22.6)	(65.9)	-	-	-	(88.5)
Balance at 30 June 2022	**9.0**	**-**	**52.5**	**226.8**	**285.9**	**1,122.2**	**1,696.4**
Net book value							
At 1 July 2021 (restated)	**51.9**	**295.3**	**385.8**	**127.4**	**105.8**	**270.8**	**1,237.0**
At 30 June 2022	**65.9**	**324.2**	**586.0**	**106.1**	**30.3**	**402.1**	**1,514.6**

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

8. NON-FINANCIAL ASSETS (continued)

(a) PROPERTY, PLANT AND EQUIPMENT (continued)

2021 (restated)	Buildings	Railway Infrastructure	Rolling Stock	Ships	Plant & Equipment	Assets Under Construction	Total
Cost/Valuation	$m	$m	$m	$m	$m	$m	$m
Balance at 1 July 2020	**47.4**	**135.9**	**434.3**	**304.6**	**263.0**	**177.3**	**1,362.5**
Additions	9.2	114.2	96.7	14.2	24.9	584.7	843.9
Disposals	-	-	(4.4)	-	(1.1)	-	(5.5)
Revaluation	(0.2)	-	-	-	-	-	(0.2)
Impairment	(1.0)	(92.1)	(74.7)	-	-	-	(167.8)
Impairment Reversal	-	137.4	10.9	-	-	-	148.3
Balance at 30 June 2021	**55.4**	**295.4**	**462.8**	**318.8**	**286.8**	**762.0**	**2,181.2**
Accumulated depreciation and impairment							
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)	-	-	-	(3.7)
Impairment	-	(5.3)	(27.3)	-	-	491.2	458.6
Impairment Reversal	-	(8.7)	(5.4)	-	-	-	(14.1)
Balance at 30 June 2021	**3.5**	**0.1**	**77.0**	**191.4**	**181.0**	**491.2**	**944.2**
Net book value							
At 1 July 2020	**47.5**	**135.9**	**361.4**	**148.0**	**104.8**	**177.3**	**974.9**
At 30 June 2021	**51.9**	**295.3**	**385.8**	**127.4**	**105.8**	**270.8**	**1,237.0**

(i) Recognition and Measurement

Property, plant and equipment is shown at cost or valuation, less any accumulated depreciation and accumulated impairment losses. Rail infrastructure and rolling stock are carried at fair value. 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.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

8. NON-FINANCIAL ASSETS (continued)

(a) PROPERTY, PLANT AND EQUIPMENT (continued)

(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 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 at historical cost, the amounts would be as follows:

	GROUP 2022	GROUP 2021
	$m	$m
Cost	188.1	168.6
Accumulated depreciation	(68.2)	(60.6)
Net carrying value	**119.9**	**108.0**

(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 2022

8. NON-FINANCIAL ASSETS (continued)

(a) PROPERTY, PLANT AND EQUIPMENT (continued)

The 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

Estimation of useful lives of assets

The useful lives and residual values of property, plant and equipment are reviewed annually. A number of factors such as the physical condition, expected period of use and expected disposal proceeds from the future sale are taken into account when assessing the appropriateness of useful life and residual value estimates of property, plant and equipment.

(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 2022	GROUP 2021
		$m	$m
Opening balance		**0.2**	**0.9**
Additions		29.8	25.2
Amortisation		(0.2)	(1.2)
Impairment	8(c)(i)	(22.4)	(24.7)
Balance at 30 June		**7.4**	**0.2**

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

8. NON-FINANCIAL ASSETS (continued)

(b) INTANGIBLE ASSETS (continued)

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

(c) IMPAIRMENT OF NON-FINANCIAL ASSETS

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 value in use. The value in use is estimated using the discounted cashflow (DCF) valuation method. Under this method, future cash flows of the Rail CGU are estimated, and discounted to a present value using a post-tax discount rate of 7.3%.

As at 30 June 2022 the recoverable amount of the Rail CGU is less than the carrying amount. The difference between the recoverable amount and the carrying amount has been recognised as impairment. Impairment has been applied to assets based on an allocation approach with assets not being impaired below the higher of value in use, fair value less costs of disposal or nil. The following assumptions and judgements have been applied:

- Rolling stock and railway infrastructure reflect values calculated with reference to external information as at 30 June 2022;
- Market values have been provided by an independent valuer for buildings based on the most recent valuation; and
- Prepayments relating to milestone payments for the procurement of new rolling stock assets and related new assets under construction represent fair value. Factors considered in making this determination include reference to stage of completion, project business case and the nature of the payments.

The table below summarises the impairment and revaluation movements recognised for the Rail CGU:

GROUP 2022	2022 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	65.1	(2.3)	(0.1)	62.7
Railway infrastructure	489.8	(165.6)	-	324.2
Rolling stock	437.3	148.7	-	586.0
Plant and equipment	103.7	(80.5)	-	23.2
Right-of-use assets	30.6	(23.0)	-	7.6
Assets under construction	909.4	(631.0)	-	278.4
Total property, plant and equipment	2,035.9	(753.7)	(0.1)	1,282.1
Intangible assets	29.8	(22.4)	-	7.4
Prepayments	161.8	-	-	161.8
Total Rail CGU	**2,227.5**	**(776.1)**	**(0.1)**	**1,451.3**

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

8. NON-FINANCIAL ASSETS (continued)

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

As at 30 June 2021 the recoverable amount of the Rail CGU was determined as fair value less costs to sell. The table below summarises the impairment and revaluation movements recognised for the Rail CGU:

GROUP 2021 (restated)	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	694.7	(491.2[3])	-	203.5
Total property, plant and equipment	1,538.0	(464.0)	(0.2)	1,073.8
Intangible assets	24.9	(24.7)	-	0.2
Prepayments	68.7	-	-	68.7
Total Rail CGU	**1,631.6**	**(488.7)**	**(0.2)**	**1,142.7**

(ii) Interislander CGU

The recoverable amount of the Interislander CGU has been determined as value in use. The value in use is estimated using the 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 7.5% (2021: 6.5%).

As at 30 June 2022 the recoverable amount of the Interislander CGU is higher than the carrying amount and therefore no asset impairment was required. The following judgement were applied in making this determination:

- Prepayments relating to milestone payments for the procurement of new ferries represent fair value and related new assets under construction represent fair value. Factors considered in making this determination include reference to stage of completion, project business case and the nature of the payments.

9. CASH AND CASH EQUIVALENTS

	GROUP 2022	GROUP 2021
	$m	$m
Current accounts and call deposits	160.2	309.4
	160.2	**309.4**

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 greater than three months from acquisition date are classified as short-term deposits.

3- Refer to Note 27 regarding restatement of comparatives

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

10. TRADE AND OTHER RECEIVABLES

	GROUP 2022	GROUP 2021 (restated)
	$m	$m
Trade receivables	81.8	70.7
Related party receivables	44.8	20.8
GST receivable	4.2	5.2
Accrued and other receivables:		
Prepayments	246.9	152.2
Other	27.5	22.0
Gross receivables	405.2	270.9
Less: Provision for impairment	(3.0)	(3.0)
	402.2	**267.9**
Current assets	185.9	144.7
Non-current assets	216.3	123.2
	402.2	**267.9**

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 to classify and measure financial instruments after initial recognition. This reflects the Group's management intentions and strategy to manage financial assets as a group rather than individually.

Prepayments include milestone payments for assets that will be classified as property, plant and equipment. These payments have been classified as non-current.

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 impairments are provided for when accounts are over 90 days or when circumstances of potential default become known.

The carrying amount of the receivables is reduced through the use of expected credit losses. 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:

	2022			2021		
	Gross	Impairment	Net	Gross	Impairment	Net
	$m	$m	$m	$m	$m	$m
Not past due	76.1	-	76.1	75.8	(1.1)	74.7
Past due 1 – 30 days	42.9	(0.6)	42.3	8.3	-	8.3
Past due 31 – 60 days	1.1	(0.3)	0.8	0.6	(0.6)	-
Past due 61 - 90 days	1.1	(1.1)	-	0.5	(0.5)	-
Past due > 91 days	1.0	(1.0)	-	0.8	(0.8)	-
Total	**122.2**	**(3.0)**	**119.2**	**86.0**	**(3.0)**	**83.0**

The average credit period on sales of goods and services is 27 days (2021: 28.0 days).

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FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

11. INVENTORIES

	GROUP 2022	GROUP 2021
	$m	$m
Operational Activities:		
Fuel	4.5	2.3
Inventory held to maintain rail network	52.5	46.1
Inventory held to maintain rolling stock	67.5	51.2
Inventory held to maintain ships	11.6	10.1
Inventory held for resale	0.1	0.8
Contracting Activities – work in progress	2.8	1.6
Gross inventory	139.0	112.1
Less: Provision for stock obsolescence	(18.8)	(16.3)
Net inventory	**120.2**	**95.8**

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

Write-downs or reversals of write-downs of inventories are recognised in operating expenses in net surplus or deficit, in the period the loss or reversal occurs. During the year, the Group has recognised write-downs in inventory of $0.1m (2021: write-down of $1.0m).

12. FINANCIAL ASSETS AND LIABILITIES

	GROUP 2022			GROUP 2021		
	Current	Non-current	Total	Current	Non-current	Total
	$m	$m	$m	$m	$m	$m
Financial assets						
Commodity forward contracts	3.9	0.5	4.4	-	-	-
Foreign currency forward contracts	24.9	46.9	71.8	1.4	6.6	8.0
Interest rate swaps	-	12.8	12.8	-	-	-
Share investments	0.3	-	0.3	0.5	-	0.5
Total financial assets	**29.1**	**60.2**	**89.3**	**1.9**	**6.6**	**8.5**
Financial liabilities						
Commodity forward contracts	-	-	-	0.4	0.7	1.1
Loans	4.0	25.0	29.0	39.0	5.3	44.3
Leases (note 20)	28.6	48.0	76.6	20.8	62.0	82.8
Foreign currency forward contracts	1.4	10.4	11.8	27.9	24.6	52.5
Interest rate swaps	0.1	-	0.1	0.1	1.1	1.2
Total financial liabilities	**34.1**	**83.4**	**117.5**	**88.2**	**93.7**	**181.9**

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

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

Unsecured loans

The Group had no unsecured loans as at 30 June 2022 (2021: $1.3m).

Secured loans

As at 30 June 2022 the Group has drawn down $25.0m of the $350.0m committed syndicated loan facility to partially fund the replacement of the Group's Interislander ferries (2021: nil).

An additional loan from Westpac Banking Corporation is secured against the MV Kaiarahi. There are no restrictions on title. The outstanding principal for all secured loans as at 30 June 2022 was $29m (2021: $43.0m).

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 2022	GROUP 2021
Notional principal	$m	32.6	47.4
Average interest rate	%	3.55	1.88
Average term to maturity	years	10.56	0.85

Committed standby facility

The Group had a committed standby facility with Bank of New Zealand for $15.0m as at 30 June 2022 (2021: $15.0m) with an expiry date of 1 July 2023. As at 30 June 2022, the facility was undrawn.

Letter of credit facilities

The Group had no letter of credit facilities at 30 June 2022 (2021: nil).

Standby letter of credit

The Group had no standby letters of credit at 30 June 2022 (2021: nil).

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

12. FINANCIAL ASSETS AND LIABILITIES (continued)

(c) Changes in liabilities arising from financing activities

		Non-cash changes			
	GROUP 2021	**Net Cash Flow**	**Changes in fair values**	**others**	**GROUP 2022**
	$m	$m	$m	$m	$m
Loans	44.3	(15.3)	-	-	29.0
Leases	82.8	(31.5)	-	25.3	76.6
Total liabilities from financing activities	**127.1**	**(46.8)**	**-**	**25.3**	**105.6**

13. INVESTMENT PROPERTY

	GROUP 2022	**GROUP 2021**
	$m	$m
Opening balance	**95.4**	**87.3**
Additions	8.4	5.6
Disposals	(1.8)	-
Transfers	(3.3)	(1.6)
Fair value gains on valuation	-	8.6
Impairment	-	(4.5)
Balance at 30 June	**98.7**	**95.4**

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 2022 was $11.1m (2021: $6.8m). The direct operating expenses (including maintenance) incurred from the use of investment properties during the year was $2.5m (2021: $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.

An impairment charge of $1.1m has been recognised in the Statement of Comprehensive Income reflecting the Groups interest in Flok Limited.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

15. TRADE AND OTHER LIABILITIES

	GROUP 2022	GROUP 2021
	$m	$m
Trade payables	86.4	117.1
Unearned revenue	189.0	57.2
Accrued interest	0.2	0.7
Related party payable	-	133.3
Other payables and accruals	80.7	114.4
Total payables	**356.3**	**422.7**

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 2022	GROUP 2021
	$m	$m
Current		
Short-term employee benefits	34.0	31.3
Annual leave entitlement accruals	76.0	59.3
Retirement and long service leave liability	7.0	6.0
Total current	117.0	96.6
Non-Current		
Retirement and long service leave	43.7	46.9
Total non-current	43.7	46.9
Total employee entitlements	**160.7**	**143.5**

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

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

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

16. EMPLOYEE ENTITLEMENTS (continued)

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 2022.

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 2.46% to 4.37% per annum (2021: from 2.38% to 2.50% per annum) and a term specific risk-free discount rate range of 3.34% and 4.30% per annum (2021: between 0.38% and 4.30% 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 2021	**4.6**	**6.1**	**10.7**
Provisions made during the year	0.3	2.5	2.8
Provisions utilised or released during the year	-	(3.1)	(3.1)
Balance at 30 June 2022	**4.9**	**5.5**	**10.4**

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.

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 for nominal consideration, 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.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

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18. SALE AND PURCHASE OF LAND (continued)

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 $nil (2021: $0.1m). The total net land acquisitions during the year was $25.4m (2021: $22.7m). 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 2022	GROUP 2021
	$m	$m
Capital expenditure commitments:		
Not later than one year	434.7	329.6
Later than one year but not later than five years	873.7	519.1
	1,308.4	**848.7**

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 generally 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 $0.1m (2021: $0.4m) 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.

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.

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20. LEASES (continued)

Right-of-use assets

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

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

The right-of-use assets are also subject to annual impairment assessment. Refer to Note 8(c).

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

2022	Property	Ships	Plant and Machinery	Motor Vehicles	Other Equipment	Total
Cost/Valuation	$m	$m	$m	$m	$m	$m
As at 1 July 2021	**62.2**	**-**	**14.6**	**6.3**	**3.3**	**86.4**
Additions/Remeasurement	(1.3)	21.2	0.1	3.6	0.3	23.9
Depreciation expense	(13.1)	(8.8)	(1.1)	(3.8)	(2.6)	(29.4)
Impairment	(7.3)	-	(10.3)	(4.6)	(0.8)	(23.0)
As at 30 June 2022	**40.5**	**12.4**	**3.3**	**1.5**	**0.2**	**57.9**

2021	Property	Ships	Plant and Machinery	Motor Vehicles	Other Equipment	Total
Cost/Valuation	$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**

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.

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20. LEASES (continued)

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 2022	GROUP 2021
	$m	$m
As at 1 July	**82.8**	**96.3**
Additions	22.3	8.9
Accretion of interest	3.0	3.3
Payments	(31.5)	(25.7)
As at 30 June	**76.6**	**82.8**

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.

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

	GROUP 2022	GROUP 2021
	$m	$m
Total minimum lease payments receivable:		
Not later than one year	39.7	35.7
Later than one year but not later than five years	134.6	124.4
Later than five years	318.5	295.1
	492.8	**455.2**

For the year ended 30 June 2022, $47.9m was recognised as revenue in net surplus (2021: $45.4m).

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

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FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

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

	GROUP 2022	GROUP 2021 (restated)
	$m	$m
Net (deficit) after taxation	(452.1)	(128.1)
Add/(deduct) items classified as investing or financing activities		
Loss/(gain) on sale of assets	1.6	(0.7)
Fair value movement in derivatives	(14.0)	1.6
Capital grant receipts	(316.7)	(330.1)
National Land Transport Fund receipts	(154.3)	-
Insurance proceeds	(11.1)	(93.0)
	(946.6)	(550.3)
Add/(deduct) non-cash items		
Depreciation and amortisation expense	165.5	140.4
Movements in provisions	(3.5)	0.1
Impairment of non-financial assets	777.2	493.2
Movement in fair value of investment properties	-	(8.6)
	(7.4)	74.8
Add/(deduct) movements in working capital		
(Increase)/decrease in trade receivables	(11.1)	3.6
(Increase) in other receivables	(30.0)	(35.4)
(Increase) in inventories	(24.4)	(8.7)
(Decrease)/increase in trade payables	(30.7)	18.7
Increase in other payables	162.2	67.8
Net cash flows from operating activities	**58.6**	**120.8**

22. RELATED PARTY TRANSACTIONS

Aside fom the core lease agreement with NZRC (Note 18), the Group enters into transactions with related parties all of which 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 Custom 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.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

22. RELATED PARTY TRANSACTIONS (continued)

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 2022	GROUP 2021
	$000	$000
Key management personnel compensation		
Short-term employee benefits	8,298	5,177
Termination benefits	-	-
Total key management personnel compensation	**8,298**	**5,177**

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

	GROUP 2022	GROUP 2021
KHL Directors	$000	$000
David McLean	45	-
Susan McCormack	73	59
Hazel Armstrong	42	40
Noel Coom	47	44
Bruce Wattie	47	44
Mike Williams	42	40
Rachel Pinn	42	40
Maxine Moana-Tuwhangai	42	40
Brian Corban	-	68
Fiona Mules	-	40
	380	**415**

David McLean was appointed as Chair of the Board on 1 January 2022. Susan McCormack was Acting Chair of the Board until the appointment of David McLean. Fiona Mules resigned as a Director on 2 July 2021. Hazel Armstrong and Noel Coom completed their terms as Directors on 30 June 2022.

23. SHARE CAPITAL

At 30 June 2022, the Group had issued 3,470,404,088 ordinary shares with no par value (2021: 2,811,650,000), 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;

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

23. SHARE CAPITAL (continued)

- 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 2022	GROUP 2021
	(m)	(m)
Opening balance	2,811.7	2,088.0
Shares issued	790.8	723.7
Share buy-back	(132.0)	-
Balance at 30 June	**3,470.5**	**2,811.7**

As at 30 June 2021 the Group recognised a payable to the Crown of $132.0m for the surplus equity investment relating to the reinstatement of the Main North Line following the Kaikoura earthquake.

In order to return the surplus to the Crown, KHL purchased and the Crown sold, 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 the buy back from Shareholding Ministers was executed on 15 October 2021.

24. FAIR VALUE

(a) Classification of Financial Instruments

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

	GROUP 2022	GROUP 2021
FINANCIAL ASSETS	$m	$m
Loans and receivables		
Cash and cash equivalents and short-term deposits	170.2	359.4
Trade and other receivables (excluding prepayments)	154.1	110.5
	324.3	**469.9**
Fair value through net surplus or deficit		
Derivative financial assets	**20.9**	**0.8**
FINANCIAL LIABILITIES		
Amortised cost		
Trade and other liabilities	167.5	365.5
Interest-bearing liabilities	105.6	127.1
	273.1	**492.6**
Fair value through net surplus or deficit		
Derivative financial liabilities	**1.2**	**6.1**

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

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

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24. FAIR VALUE (continued)

(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 (2021: nil).

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

(i) Derivative financial instruments

The fair values of the Group's financial assets and financial liabilities as well as the methods used to estimate the fair values are summarised below:

	Level 2	
Financial instruments Net Asset/(Net Liability)	**GROUP 2022**	**GROUP 2021**
	$m	$m
Commodity forward contracts	4.4	(1.1)
Foreign currency forward contracts	59.9	(44.4)
Interest rate swaps	12.7	(1.2)
	77.0	**(46.8)**

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 and are designated at fair value through net surplus or deficit.

The Group uses discounted cash flow techniques to estimate the fair value of its financial instruments. Inputs for the discounted cash flow calculations are derived from market observable data or where such data is not available, from information provided by banking counterparties. 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 values of the non-financial assets that are required to be reflected at fair value during the year were:

	Level 2	
Non-financial assets	**GROUP 2022**	**GROUP 2021**
	$m	$m
Investment property	98.7	95.4
Buildings	65.9	51.9
	164.6	**147.3**

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.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

24. FAIR VALUE (continued)

(b) Fair Value Hierarchy (continued)

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 to determine the fair value of non-financial assets are:

- *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 2022 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 factored into the valuations include 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 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 valuer considered the likely sale price of the property and 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 2022**	**GROUP 2021**	**GROUP 2022**	**GROUP 2021**
	$m	$m	$m	$m
Investment properties	4.7	4.5	(4.7)	(4.5)
Buildings	3.3	2.6	(2.1)	(1.2)

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 while protecting future financial security.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

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FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

25. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

(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 prices. 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 Management 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 2022 were $1,225.3m (2021: $983.3m).

The Group has hedged 100% (2021: 100%) of committed foreign currency capital purchases.

Foreign currency sensitivity on financial instruments

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

	GROUP 2022		GROUP 2021	
In NZ $m	**Equity**	**Profit**	**Equity**	**Profit**
Foreign currency sensitivity analysis				
Impact of a 10% strengthening of the NZD	(108.6)	(1.0)	(82.8)	(7.1)
Impact of a 10% weakening of the NZD	132.7	1.2	101.2	8.7

(ii) Interest Rate Risk

Interest rate risk is the risk that cost of funds increase due to increases 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 Management 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 2022 were $241m (2021: $25.0m), with average term to maturity of 6.92 years (2021: 1.02 years) and a weighted average fixed interest rate of 2.46% (2021: 4.76%). As at 30 June 2022, after taking into account the effect of the interest rate swaps, approximately 87.5% of the Group's drawn loans are at a fixed rate of interest (2021: 52.8%). In addition, the Group has entered into positions to fix 50% of the interest rate risk associated with the committed syndicated loan facility (2021: nil).

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 2022 Profit**	**GROUP 2021 Profit**
Impact of a 100 bp interest rate increase	4.9	(0.3)
Impact of a 100 bp interest rate decrease	(6.4)	0.2

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

25. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

(a) Market Risk (continued)

(iii) Price Risk

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

Fuel Price Risk

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

The Group is party to a number of commodity forward contracts for Singapore intermediate fuel oil and gas oil. The total notional principal amount of outstanding commodity forward contracts is $9.4m (2021: $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 counterparties. In accordance with the Group's Treasury Management Policy, a minimum long-term rating of A (Standard & Poor's) or A2 (Moody's) or Fitch equivalent is required to approve individual counterparty exposure. If an actual or expected change or downgrade of the counterparty's credit rating occurs or is foreseen, an impairment assessment will be undertaken as at the reporting date to identify if 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 Management Policy does not require collateral support for financial instruments subject to credit risk, although personal guarantees may be obtained in support of the financial performance of certain customers.

Concentration of credit risk

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

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.

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25. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

(c) Liquidity Risk (continued)

GROUP 2022	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	167.5	167.5	167.5	-	-	-
Net settled derivative liabilities	11.9	12.0	1.5	3.3	7.2	-
Leases	76.6	96.5	32.3	11.8	23.6	28.8
Loans	29.0	32.4	5.0	0.9	26.5	-
Total	**285.0**	**308.4**	**206.3**	**16.0**	**57.3**	**28.8**

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**

(d) Derivative Financial Instruments and Hedging Activities

The Group uses derivative financial instruments within predetermined policies and limits 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 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 probable 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.

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FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

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 hedged item attributable to changes in foreign exchange and interest rates.

Cash flow hedges

The Group uses interest rate swaps to manage the risk of an increase in its current and future finance costs resulting from an increase in interest rates.

To the extent these hedges are effective, the change in fair value of the interest rate swap is recognised in other comprehensive income, while the change in fair value on the ineffective portion is recognised immediately in net surplus or deficit.

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 2022, the Group held the following instruments to hedge exposures to changes in foreign currency and interest rates:

GROUP 2022	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Foreign Currency Risk				
Forward Exchange Contracts				
Net Exposure (in NZD$m)	416.56	383.02	418.38	-
Average NZD:USD forward contract rate	0.66	0.65	0.67	-
Average NZD:AUD forward contract rate	0.92	-	-	-
Average NZD:EUR forward contract rate	0.58	0.54	0.54	-
Interest Rate Risk				
Interest Rate Swaps				
Net Exposure (in NZD$m)	-	-	50.0	175.0
Average Fixed Interest Rate (in %)	-	-	1.90	2.28

GROUP 2021	Less than 1 year	1 to 3 years	3 to 5 years	More than 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	-	-	-

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

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FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

25. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

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

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

	GROUP 2022	GROUP 2021
	$m	$m
Opening balance at 1 July	**(41.5)**	**(3.3)**
Gain/(loss) recognised in other comprehensive income	109.6	(38.2)
Total movements to other comprehensive income	109.6	(38.2)
Closing balance at 30 June	**68.1**	**(41.5)**

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 four years (2021: five years).

The details of the hedging instruments are as follows:

GROUP 2022	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 1,218m	Financial Assets/ Liabilities	68.1	(10.8)	58.8
Interest Rate Risk					
Interest rate swap contracts	NZD 225m	Financial Assets/ Liabilities	12.8	-	12.8

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)

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25. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

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

The details of the hedge items are as follows:

GROUP 2022	Change in fair value for calculating hedge ineffectiveness	Cash Flow Hedge Reserve
	$m	$m
Cash flow hedges		
Foreign Currency Risk		
Committed foreign exchange transactions	63.9	55.3
Interest Rate Risk		
Committed interest rate transactions	12.8	12.8

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

(e) Capital Risk Management

The Group manages its capital structure to ensure it is able to continue as a going concern while maximising its investment in rail infrastructure and rolling stock assets. The State-Owned Enterprises Act 1986 requires the Group to, as its principal objective, operate as successful business which includes being 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

As disclosed in Note 1(g) the final deliverable for the Rail Review was the completion of a review of entity form. Responsible Ministers concluded KiwiRail should remain a State Owned Enterprise on 19 September 2022.

27. RESTATEMENT OF COMPARATIVES

(a) Impairment of Assets Under Construction

In previous years assets relating to the construction of new rail infrastructure were carried at cost and subsequently impaired when capitalised. During 2022 it has been determined that these assets are subject to impairment during the course of construction and have been assessed as being impaired because the Group impaired the Rail CGU in the prior year based on the fair value less cost to sell (FVLCS). The FVLCS of these rail infrastructure assets under construction was determined to be insignificant. As a consequence, the carrying value of assets under construction has been restated for each of the affected financial statement line items for prior periods through adjustment 1 in the table below.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

27. RESTATEMENT OF COMPARATIVES (continued)

(b) Milestone Payments

In previous years milestone payments relating to assets that are being constructed on behalf of the Group were disclosed within assets under construction. During 2022 it has been determined, based on a review of the conditions of the contracts, that the risk and rewards associated with the assets only transfer to the Group on completion and that it is more appropriate to account for these payments as prepayments. There is no impact on total assets of the Group but results in a reclassification of milestone payments from assets under construction to prepayments as the Group does not control the physical asset. This has been amended by restating each of the affected financial statement line items for prior periods through adjustment 2 in the table below.

In addition, as part of completing the exercise to restate the milestone payments, it was noted that in 2021 Interislander assets under construction of $110m were included in the Rail CGU assets under construction in Note 8(c). As a result, after taking into account adjustment 1 and 2 below, the prior year carrying amount before revaluation and impairment balance of $939.9m has decreased to $694.7m.

(c) ODRC Valuation

As part of the 2022 valuation process it was identified that earthworks had been excluded from the valuation in previous years. The ODRC valuation is not reflected in the carrying values in the Group financial statements although is disclosed in Note 1(e). The comparative ODRC amount has been restated by $1,130m. The result is that the prior year disclosed ODRC value of $6,528m has increased to $7,658m.

Impact of restatement: Statement of Financial Position

1 July 2020	As previously reported	Adjustment 1	Adjustment 2	As restated
	$m	$m	$m	$m
Non-current assets				
Trade and other receivables	0.3	-	10.1	10.4
Property, plant and equipment	1,051.1	(66.1)	(10.1)	974.9
Total assets	**1,771.2**	**(66.1)**	**-**	**1,705.1**
Total liabilities	**714.7**	**-**	**-**	**714.7**
Retained earnings	(1,045.6)	(66.1)	-	(1,111.7)
Total equity	**1,056.5**	**(66.1)**	**-**	**990.4**

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

27. RESTATEMENT OF COMPARATIVES (continued)

30 June 2021	As previously reported	Adjustment 1	Adjustment 2	As restated
	$m	$m	$m	$m
Non-current assets				
Trade and other receivables	-	-	123.2	123.2
Property, plant and equipment	1,596.9	(236.7)	(123.2)	1,237.0
Total assets	**2,388.4**	**(236.7)**	**-**	**2,151.7**
Total liabilities	**758.8**	**-**	**-**	**758.8**
Retained earnings	(1,025.6)	(236.7)	-	(1,262.3)
Total equity	**1,629.6**	**(236.7)**	**-**	**1,392.9**

Impact of restatement: Statement of Comprehensive Income

For the year ended 30 June 2021	As previously reported	Adjustment 1	Adjustment 2	As restated
	$m	$m	$m	$m
Operating surplus	91.1	-	-	91.1
Impairment	(322.6)	(170.6)	-	(493.2)
Net surplus/(deficit) after taxation	**42.5**	**(170.6)**	**-**	**(128.1)**
Total comprehensive income/(loss)	**4.0**	**(170.6)**	**-**	**(166.6)**

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 2022

The Auditor-General is the auditor of KiwiRail Holdings Limited group (the Group). The Auditor General has appointed me, Wikus Jansen van Rensburg, 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 64 to 101, that comprise the statement of financial position as at 30 June 2022, 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 2022; 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 Financial Reporting Standards.

Our audit was completed on 27 September 2022. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw attention to the significant judgements made by the Group in designating the Group as a for-profit entity for financial reporting purposes. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements, we comment on other information, and we explain our independence.

Emphasis of matter - Judgements made in designating the Group as a for-profit entity for financial reporting purposes

Without modifying our opinion, we draw attention to Note 1(e) on page 69 which outlines the Board of Directors' judgement in designating the Group as a for-profit entity for financial reporting purposes, and the factors that the Board considered in forming this view. This includes the principal objective of KiwiRail Holdings Limited under the State-Owned Enterprises Act 1986 to operate as a successful business, including being as profitable and efficient as comparable businesses that are not owned by the Crown. The disclosure outlines the impact of this designation on the carrying value of the Group's property, plant and equipment and the substantially higher value that these assets are reported at in the Financial Statements of the Government because the Government is a public benefit entity for financial reporting purposes.

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 1 to 63 and page 104 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.

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

Wikus Jansen van Rensburg
Audit New Zealand
On behalf of the Auditor-General
Auckland, New Zealand

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Further information

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