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KIWIRAIL'S EVOLUTION

ANNUAL INTEGRATED REPORT 2019

KiwiRail

WELCOME – TĒNĀ KOUTOU

Rail has a long and proud history in New Zealand, stretching back more than 150 years. The financial year to 30 June 2019 (FY19) has seen the Government renew that commitment to rail, laying the foundations for us to play the role we should in delivering for the country.

In the 2019 Budget, the Government allocated $741 million through Vote Transport over the next two years and made a further $300 million available for regional rail projects through the Provincial Growth Fund (PGF).

The money is being used to address legacy issues to improve reliability and resilience for tracks, signals, bridges and tunnels, for new freight handling equipment and a new freight reservation and tracking system. We will also be replacing aging locomotives and wagons and improve our major maintenance depots at Hutt and Waltham. It will also be used to progress the procurement of two new, rail-enabled ferries that will replace Interislander's aging Aratere, Kaitaki, and Kaiarahi ferries.

That outstanding level of investment is a clear recognition of the value rail adds to New Zealand's transport system.

It is a driver of economic development and employment, delivered through our freight network, world-class tourism services, and the commuter services we enable in Auckland and Wellington.

Those services contribute to our purpose of building a better New Zealand through stronger connections.

We do this by putting the customer at the centre of everything we do, and our workers strive every day to meet their needs.

Our workforce, spread throughout New Zealand, reflects the nation. It includes men and women from all corners of the world, and from diverse ethnic backgrounds. There is however still room to improve.

These are exciting times for rail in New Zealand, and we look forward to building a future on the investment that has been made in us.

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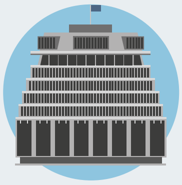
AT A GLANCE: HIGHLIGHTS FROM FY19



FINANCIAL

Operating surplus[1] of $55 million which is up by $6 million compared to 2018

Overall revenue up by 11%

Solid growth in rail freight revenue - $39 million up on last year (excludes impact of fuel cost recovery)

Growth in domestic freight revenue of 25% following the full reopening of the Main North Line

Growth in forestry revenue of 12% as the Wall of Wood comes onstream and we increase our log wagon fleet

Growth of bulk freight revenue of 12% with a strong coal market

Strong year for tourism – up by $7 million on last year

Transitional funding committed for FY20 and FY21 in Government Budget

$300 million earmarked in the PGF for regional rail projects

OPERATING SURPLUS[1] UP
$6M

OVERALL REVENUE UP
11%

PEOPLE

Staff engagement hits record high with Employee Net Promoter Score reaching to +24 in 2019, up 23 from +1 in 2018, improvement on a low of -21 in 2016 and -7 in 2017

13,600 Safe Work Conversations recorded over the year, a 212% increase on previous year

High Performance High Engagement (HPHE) has 13 initiatives underway across the business, including higher facility usage and reduced out-of-service times from maintenance depot roster changes using HPHE principles, HPHE V2 training and material under construction for different levels

Increasing focus on diversity and inclusion with launch of network groups underway: Women, Rainbow and Young Professionals

Operations restructure implemented to bring all operational teams together into one team

Safety Culture survey with 2,011 people taking part, providing 800 comments. 53% of participants believe we are better than other companies or as good as the best in the world

EMPLOYEE NET PROMOTER SCORE REACHES
+24

ASSETS

Project iReX confirms two large rail-enabled ferries to replace existing fleet

Rolling stock and mechanical facilities replacement program underway, with 15 DL Gen 2.3 Locomotives delivered in October 2018 and all in commercial service

Wellington Metro 98% on time performance for the 2,200 weekly services

Received $8 million initial funding for the Hamilton to Auckland service, and promised a further $14.5 million in the short term. Work refurbishing the Hamilton-Auckland carriages is progressing well, and network and maintenance facility implementation work is about to commence

Boost to regional economies through the PGF enabling: additional capacity and premium carriages on tourism services; reopening of Napier to Wairoa line; new regional freight hub in Palmerston North; Northland rail investigations; Whanganui's Castlecliff Line upgrade and other regional studies

15 DL GEN 2.3 LOCOMOTIVES DELIVERED

1. Operating surplus represents earnings before depreciation & amortisation, interest, impairment, capital grants and fair value changes. FY19 Operating surplus excludes impact of non-recurring items.

SKILLS AND KNOW-HOW

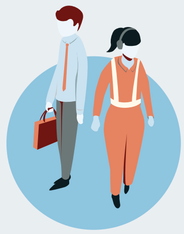
Napier to Wairoa line opened on time. Significant recovery effort September to April rebuilding Raupunga landslip. Excellent team work from all parts of the business

Kaikoura rebuild won global award – Institution of Civil Engineers People's Choice Award

Placements confirmed for 56 new Locomotive Engineers with an additional intake being planned

New governance structure for significant project investment in place

CIVIL ENGINEERS PEOPLE'S CHOICE AWARD



RELATIONSHIPS

Customer satisfaction ratings for Interislander at 91%, up +1% on last year

Successful Project Wāheke with 32 in-depth customer interviews from the viewpoint of four primary customer archetypes

Full reinstatement of the Main North Line with Coastal Pacific passenger service reopened in December 2018, which was welcome news for Kaikoura, as the trains bring in tourists who play a significant part in the local economy

Developed relationship with Napier and Hawke's Bay hapū during the process of opening the Napier to Wairoa line

INTERISLANDER CUSTOMER SATISFACTION 91%

ENVIRONMENT

Achieved 58% of our 2020 Energy Reduction Target (73.5 GWh) which equates to reductions of 10,929 tonnes of CO_2-e emissions

Locomotive fuel burn had a 6.1% improvement on Base Year FY16

Interislander sailing fuel performance had a 2.8% improvement on Base Year FY16

Addition of electric vehicles to fleet at Auckland and Wellington offices

REDUCTION OF 10,929 TONNES CO_2-e EMISSIONS

OUR PURPOSE

STRONGER CONNECTIONS.

35 MILLION

We help commuters make 35 million low-carbon journeys each year

ONE MILLION

We carry more than one million tourist passengers each year

19 MILLION

We move more than 19 million tonnes of freight each year

- Manage 17,800 hectares of land
- Own more than 1,350 buildings

- 3,100 signals
- 1,500 public level crossings

- 4,756 wagons

- Over $1 billion invested in renewal and upgrade of rail network, rolling stock and property over the last five years

- Three long-distance passenger experiences between Auckland and Greymouth
- 230,000 passengers per year
- Stops at 24 towns and cities in New Zealand

BETTER NEW ZEALAND.

1.5 BILLION

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

16%

We carry around 16% of New Zealand's total freight task (tonnes-km)

26%

We transport 26% of New Zealand's exports

- 98 tunnels
- 1,325 bridges

- Three ships
- 825,000 passengers
- 3,700 sailings per year

- Reduce heavy vehicle impact by 1.2 million truck trips per year
- Every tonne of freight carried by rail is a 66% emissions saving over road

- 3,700 employees
- 74% union members
- 46 years - average employee age

- 253 locomotives
- 90% of all freight arrives on time

- 3,700 km of track operated and maintained
- 5.7 million sleepers, of which more than 50% are concrete

CHAIR'S MESSAGE

I am delighted to have had the opportunity to lead KiwiRail during FY19, a historic year for New Zealand rail.

I would like to acknowledge the Coalition Government's role in this transformation.

The Coalition Government's $1 billion investment, including the commitment of $300 million for regional projects, will enable us to get back on track with freight and tourism.

KiwiRail's strategy aims to double the value it delivers for New Zealand through safer roads, less congestion in our cities, reducing carbon emissions, driving economic growth and jobs through our tourism service and ensuring our exporters get their goods to market.

While projects funded by the budget and PGF funding are covered in other parts of this report, I would like to highlight other work that underpins our strategy, which is funded via the NZTA and local councils.

"It is good to see KiwiRail coming up with wins and shaking off the challenges of recent years ... Now, it is time to look forward to revitalisation and growth."

We need to keep in mind that the Coalition Government's investment is targeted towards specific projects.

KiwiRail's Board will be closely managing and supervising delivery of those projects plus the wider rail operation with a competitive commercial strategy that performs for all our customers, whether in cities or regions. We are conscious the Government is investing heavily in the future of rail, and we will ensure the people of New Zealand get the returns they expect.

Just a taste of the work ahead can be seen in the places the largest number of New Zealanders engage with KiwiRail. A massive upgrade of our metropolitan rail networks is underway, where around 97,000 trips are made every day.

Current and upcoming works include major projects such as the Wellington metro network $196 million upgrade that includes Wairarapa line renewals, double tracking of Trentham to Upper Hutt, replacing wooden traction poles and the overhead lines they hold up, and ducting aerial signals supply cables and poles.

The number of people from greater Wellington, Wairarapa and the Kāpiti Coast taking the train during morning and evening peaks has increased by more than 17 per cent over the last three years and this is expected to keep growing. These upgrades for the Wellington region will make passenger trains more reliable and allow for future growth.

Not only are passenger trains environmentally sustainable, with lower carbon emissions compared to cars, they reduce congestion on the roads during peak times. The estimated net benefit to the Wellington region (after costs) is more than $290 million.

In Auckland, the metro programme will look at a third main line to enable more freight and passenger trains, and electrification from Papakura to Pukekohe so electric trains can run all the way from the city to Pukekohe.

Focusing on the Waikato, we are working towards the five-year trial Hamilton to Auckland rail service. For this, KiwiRail is undertaking about $40 million worth of work that includes overhauling 11 carriages, with the first carriage due to be ready before Christmas 2019. The comfortable carriages will include wi-fi to enable commuters to stay in touch.

To aid us in achieving tight management through a time of transformation, this year, we welcomed on board our new Group Chief Executive Greg Miller, KiwiRail's former Chair. Greg's unrivalled background in global supply chain, a history with rail and domestic transport expertise will help us to take KiwiRail through significant growth and will help us to meet the high expectations placed on KiwiRail by the Coalition Government.

Our Board will work closely with Greg as he leads KiwiRail to achieve its commercial strategy – through replacing old wagons and locomotives, reopening old lines and fixing existing lines, bringing in newer, larger ferries capable of carrying rail, and building new multi-modal hubs.

I look forward to supervising this era of unprecedented growth and positive change for KiwiRail in other ways.

We will be supporting the increasing diversity in our workforce – KiwiRail currently has a diversity committee with representation from senior leadership, operational leaders and front-line staff, and groups such as those supporting our rainbow community, women and young professionals, and the Toi Toi Maori Leadership programme.

KiwiRail now employs people from all over the world and many ethnic backgrounds, 28 per cent of the group senior leadership team and 25 per cent of our Board are female, and women are being encouraged into track work teams, workshops and driving trains. I acknowledge we have further to go in this area, and am fully supportive of KiwiRail's new diversity initiatives.

Looking after our people is a strong focus for the Board. Unfortunately, we have seen injuries at KiwiRail begin to rise again, after reaching record lows. KiwiRail is developing new Zero Harm initiatives to turn these figures around and better protect our people. One way the Government's investment will aid in reducing some injury causes is by reducing risk. For example, modern, new locomotives mean mechanics spend more time running diagnostics on their laptops rather than on the hammer.

I am particularly interested in following the organisation's introduction of High Performance High Engagement – partnering with unions and harnessing the experience-driven ideas of those doing the work. Improvements driven by frontline workers devising solutions to business challenges include locomotives being overhauled in half the time, and trains on the East Coast Main Trunk and feeder routes leaving and arriving on time.

Another area where we have seen progress is in carbon emissions where we have already achieved 58 per cent of our 2020 Energy Reduction Target.

It is good to see KiwiRail coming up with wins and shaking off the challenges of recent years – in particular, the destruction of the Main North Line in the Kaikoura Earthquake. Now, it is time to look forward, to revitalisation and growth.

In closing, I would like to thank Greg Miller, his executive and team, our unions, customers and shareholding ministers for enabling KiwiRail to undergo this transformation.

Brian Corban CNZM
Chair

AWARDS

SEPTEMBER

- NCTIR wins the Project Award from the Resource Management Law Association, in recognition of work done following the Kaikoura earthquake

OCTOBER

- The South Rangitikei Viaduct receives the New Zealand Concrete Society's Enduring Concrete Award
- Great Journeys of New Zealand call centre comes in top three in Transport Services category of the CRM Contact Centre Awards

NOVEMBER

- Interislander wins Direct Ferries Overall Customer Experience Award
- Kaikoura rebuild is named the Institution of Civil Engineers People's Choice Award winner

FEBRUARY

- Interislander and Scenic trains receive Qualmark Gold Award

MARCH

- Our tourism brand's 'Discover a new New Zealand' campaign wins a Gold and two Silvers at the Axis 2019 Awards

MAY

- International Tunnelling and Underground Space Association (ITA) recognises our tunnelling team as international 'Project of the Year' finalist for its work on the earthquake-damaged Kaikoura line

MILESTONES

JULY

- 235 new flat-top intermodal wagons arrive at Port of Tauranga
- Toi Toi Maori Leaders graduate and the KiwiRail haka, Te Iho Matua, is unveiled
- Aratere completes her dry dock and with it Interislander's dry-dock season
- The 100th anniversary of joining of both ends of 8.5km Otira Tunnel is celebrated
- $250,000 West Coast rail tourism study is announced, funded by PGF

SEPTEMBER

- We launch our new purpose, 'Stronger Connections. Better New Zealand.'
- Lonely Planet names TranzAlpine as one of the top activities in New Zealand
- Departing Chief Executive Peter Reidy is farewelled
- Severe weather causes major washout on Napier to Wairoa line, north of Raupunga

NOVEMBER

- Interislander wins Direct Ferries Overall Customer Experience Award
- Kaikoura rebuild is named the Institution of Civil Engineers People's Choice Award winner
- Government announces major investments for Coastal Pacific, TranzAlpine and Palmerston North hub

2018

AUGUST

- We sign landmark pay deal with Rail and Maritime Transport Union
- Todd Moyle takes on Acting Chief Executive role
- Successful Rail Safety Week campaign promotes safe behaviour around our rail network

OCTOBER

- Daytime freight services return to Main North Line following Kaikoura earthquake
- 15 new Diesel Locomotives arrive
- Government announces $35 million investment in Electric Fleet locomotives on North Island Main Trunk
- Scoping work begins along proposed rail link to Marsden Point in Northland
- Greg Miller is welcomed as our new Chair
- Iconic South Rangitikei Viaduct rail bridge is named one of New Zealand's outstanding concrete structures

DECEMBER

- Coastal Pacific returns to service as Scenic trains Net Promoter Score reaches new record
- Plans are announced for two large rail-enabled ships to replace existing Interislander fleet
- Passenger and vehicle revenue are the highest for any December in Interislander history

JANUARY

- Interislander's on-board revenue tops $1 million over summer holiday period
- First collaborative construction project is completed between KiwiRail and City Rail Link Ltd in Auckland
- Wellington metro undertakes one of its biggest ever blocks of line for maintenance across more than 25 sites
- First stage of investigations into a 20-kilometre spur line to Northport at Marsden Point is completed
- Epic 12-hour 'Go South' show featuring all Great Journeys of New Zealand screens on Prime TV

MARCH

- Coastal Pacific campaign wins a Gold and two Silvers at the Axis 2019 Awards
- Hutt Workshops celebrate 90 years of operation

MAY

- More than $1 billion is earmarked for rail over the next two years in the Budget
- Staff engagement hits a record level, with employee net promoter score (eNPS) up to +24 (from +1 last year)

2019

FEBRUARY

- Our first safety culture survey highlights positive commitment to safety and areas for on-going improvement
- Half-year financial results released, showing rises in domestic, forestry and tourism revenue
- Scenic trains and Interislander once again receive a Gold Award from Qualmark
- Tourism Advisory Panel established to drive growth in tourist services
- Second intake of graduates start our two-year graduate programme

APRIL

- Greg Miller is appointed as Group Chief Executive, with Todd Moyle becoming Chief Operating Officer
- 4,500 pieces of 25-metre rail are delivered from ship to shore to the Hutt Workshops in record time

JUNE

- We celebrate the re-establishment of the Napier to Wairoa line
- Iconic AKV open-air carriages return to service after safety modifications
- Interislander records highest customer satisfaction levels (91%) in its 55-year history

GROUP CHIEF EXECUTIVE'S REPORT

Kia ora koutou,

The Government's announcement this year of $1 billion for our initiatives has been a game changer for us.

It is amazing to see support on this level and it is something for which we are very grateful.

This funding will allow us to improve the resilience of the rail network, invest in much-needed wagons, locomotives and improve the productivity of our workshops so that rail services can be more frequent and reliable, and operate more competitively in the market.

Looking forward, the Budget allows for the Interislander ferry design and build programme to begin, as a next step in maintaining the vital economic link between the North and South Islands, effectively an extension of State Highway 1.

The PGF will inject $80 million into a significant step change in the class and offering on our popular Great Journeys of New Zealand trains – the Northern Explorer, Coastal Pacific and TranzAlpine trains. These help get tens of thousands of tourists and Kiwis a year out into New Zealand's regions and support tourism ventures that create local jobs.

For our world famous TranzAlpine service, we are about to go to tender for a new platform extension to enable a longer train carrying more passengers to stop in Greymouth. We are in the process of designing new carriages, to be unveiled in mid-2020. We are designing a new service that will introduce business class and showcase New Zealand's finest meats, seafood and wine to tourists. By 2022, the first new carriages will begin arriving.

With other funding from the Government's 2019 Budget and PGF, we are looking at a longer timeframe of three to four years to deliver change. For example, the new funding supplies the deposit for around 100 locomotives. Next steps are to work out the best option, then move into the queue to purchase these locomotives, behind far larger orders from multinational companies.

That said, we have already reopened the Napier to Wairoa line, and have started longer log trains from the Wairarapa to Centreport in Wellington, reducing road congestion and road wear and tear.

Importantly, this quantum of commitment reflects an awareness that rail has an important part to play in building a more integrated freight transport, passenger and tourism system for New Zealand.

It is a recognition that the contribution that rail makes to New Zealand cannot be reduced solely to its revenue.

Benefits to all of us include reducing road congestion and maintenance costs, improving road safety by taking vehicles off the roads, and reducing carbon emissions – with diesel locomotives emitting 66 per cent less CO_2-e than freight trucks per tonne carried. Even lower emissions are achieved when freight on part of the main trunk line between Auckland and Wellington travels behind electric locomotives, making this part of the trip powered by the hydro lakes that generate our electricity.

Currently we carry 19 million tonnes of freight each year. This is 16 per cent of New Zealand's freight and avoids 1.2 million truck trips a year.

In yet another example, we can carry more than 1,100 tonnes of steel billets on a single 18-wagon train with just one driver, a task that would take 32 to 35 loaded trucks.

Having recently interviewed 52 exporters and importers, 49 asked us for more services and more capacity.

The demand is there but we have not been able to supply the frequency and capacity. That is something this investment will change, by enabling us to respond more easily to enable our customers, including those who transport milk powder, logs and other commodities, to benefit from this capability.

One of the changes we are now able to introduce is a new technology platform to transform our freight business. This will enable freight reservation, booking and tracking systems to create a better experience for freight customers, including real-time tracking of their goods. This type of system is industry standard today and will better allow us to compete and grow our share of the freight market.

While we have great plans for freight in the future, we have already achieved solid growth in freight income this year, up by $39 million. This was due to more freight carried and full recovery of the Main North Line following the Kaikoura Earthquake closure.

I am delighted this was a driving factor behind our result this year. Our operating surplus[1] rose by $6 million on last year to $55 million. Overall revenue was up by 11 per cent.

I am also delighted that our flagship tourism business contributed so strongly to the result, up $7 million. This was due to higher numbers of tourists on the Interislander ferries and Scenic Trains. The Coastal Pacific was reinstated last summer for the first time since the Kaikoura Earthquake.

In such a record year for our tourism business, the whole team has worked hard to ensure that our ferries were on time – the Interislander's on-time performance was 99 per cent.

While we remain customer, profit and service focused, our people and their safety remain primary drivers for us.

> *"This quantum of Government commitment reflects an awareness that rail has an important part to play in building a more integrated freight transport, passenger and tourism system for New Zealand."*

We have 3,700 team members spread all over the country. We are woven into the fabric of New Zealand's communities through our workforce, and we need to protect our part of this community.

Our Zero Harm approach is producing good results, but we still need to focus on improvements. We need to promote ownership and accountability at the coalface where the incidents occur, and pursue a more rigorous way to build a safety culture. We need everyone who comes to work to go home safely.

We also need to stop pedestrians and motorists being injured or killed around rail lines. The statistics are alarming and are not something any of us can afford to ignore as freight tonnage grows and commuter trains in our cities and regions become more frequent.

Forty-three people have been killed in the last three years, which is 43 too many. That is why we are launching a three-year campaign to make sure people stay off the tracks and behave cautiously at level crossings and around the rail corridor.

With an aging workforce approaching retirement, we are actively pursuing apprentices, cadets, graduates and tradespeople, to ensure workforce stability. At the same time, we are making sure that our long-term staff pass on their experience to those coming through. We have some great teachers, with a lot of valuable knowledge to pass on to our rangatahi.

Diversity and a supportive workplace culture remains high on our agenda. For example, Te Kupenga Mahi (our Māori network) is going from strength to strength and the second intake of graduates joined in February 2019. Our group senior leadership team of 32 includes nine talented and capable women. It was great to see that three of our latest six graduates are women – it is fabulous that they consider KiwiRail as a place for their future career. I was also pleased to see a massive response to Pink Shirt Day as we collectively took a stand against bullying.

I have been on the road for 10 months, meeting people kanohi ki te kanohi. One of the many good things about the Maori language is the sizeable number of words for which there is no direct English translation. This is a great Maori phrase that is a combination of talking face to face and straight-talking. I've been meeting all layers of our workforce, doing some straight talking and doing some listening. It's fabulous that our net promoter score lifting to +24, up from +1 last year, and -21 three years ago.

The people who will help us on our way and who have supported us through this pivotal year include a much wider group.

I would like to thank all the people on the ride alongside us in such a momentous year – our team, our union partners, our supportive shareholders, our Board and our customers. I look forward to working with all of you in the coming year.

Our most important job now is to roll up our sleeves to assist the company in the heavy lifting needed to achieve the great outcomes we all seek for New Zealand.

Ngā mihi nui

Gregory J. Miller

Greg Miller
Group Chief Executive

1. Operating surplus represents earnings before depreciation & amortisation, interest, impairment, capital grants and fair value changes. FY19 Operating surplus excludes impact of non-recurring items.

OUR REPORTING APPROACH

This is our fourth Integrated Report, which uses the International Integrated Reporting Council's framework to detail our business performance.

The report's aim is to provide in-depth information about our relationship with stakeholders, what we do in our business and our role as a driver of sustainable and inclusive economic growth for the year to 30 June 2019.

Within the report we demonstrate how we create value for New Zealand, our stakeholders, our customers, and our business in the short, medium and long term. The report also covers key material issues that have the biggest impact on our ability to create value for our business and our stakeholders. We have identified a total of 25 material issues, with top issues from the stakeholder engagement to date including: energy and carbon, zero harm, commercial viability, future proof infrastructure, and transport resilience. Material issues are important as they inform strategic decision making that will help shape our future.

In FY19 we engaged an external agency to support our materiality review process. We began with an internal workshop with selected participants to review and refine the existing material issues and develop a value creation narrative. We then engaged with external stakeholders to validate and assess the significance of those material issues shaping our reporting. External stakeholders were selected to cover a broad range of individuals and organisations that we interact with and whom are invested in our operations, our success, and the continued delivery of our services in the future. They included our customers (freight, tourism and commuters), government, community and the environment, and the outputs of this process will be included in our FY20 reporting cycle.

We continue to focus on activities to help progress towards the three Sustainable Development Goals we believe we can make the most impactful contribution. See page 46 for more details on this work.

This report's title, "KiwiRail's Evolution", reflects the next chapter we are entering as the Government shows its commitment to rail. The level of investment from the Government recognises the value which rail brings to New Zealand. Each year rail delivers $1.5 billion of external benefits from reduced congestion and emissions, road maintenance savings and safety.

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

This year there is a strong focus on the reporting capital areas of People and Assets, to reflect the changes that are taking place in these areas. Over the past 12 months we have worked hard to increase diversity and inclusiveness, and that work is paying off through increased staff engagement and Māori leadership, as well as a revival of our diversity networks. Investment in assets and more reporting on projects is also a focus for our teams as the Government commits to rail. This is highlighted in the following pages.

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

STATEMENT OF RESPONSIBILITY

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

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

Brian Corban, Chair

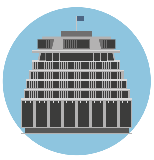
Bob Major, Director

HOW KIWIRAIL CREATES VALUE

BUSINESS ACTIVITIES

- Operate Safe, Reliable & Efficient Services
- Grow Rail Freight Share
- Retain & Grow Cook Strait Market Share
- Grow as a Leader in Tourism
- Connect People with Housing & Employment

INPUTS



FINANCIAL

Our financial capital funds are made up of operational revenue, Government investment, grant funding, asset sales proceeds and debt funding.

SKILLS & KNOW-HOW

Our people have specialist rail and marine knowledge, built up over more than 150 years.

PEOPLE

Our 3,700 people across 50 towns and cities bring the skills, know-how, pride and passion to KiwiRail.

RELATIONSHIPS

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

ASSETS

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

ENVIRONMENT

We operate throughout the country including cities, farmland, national parks, and Cook Strait, and we have several advantages as an energy efficient mode of transport.

OUR PURPOSE

STRONGER CONNECTIONS.
BETTER NEW ZEALAND.

OUR VALUES

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

Deliver Sustainable Platforms Connecting Our Network & Assets

Leverage the Value of Our Property

Build Our Sustainable Workforce of the Future

Collaborate through Alliances & Partnerships

Grow as a Leader in Sustainability

OUTCOMES

FINANCIAL

The economic value of rail to New Zealand totals $1.5 billion each year; we are working with the Government to secure long-term sustainable funding.

SKILLS & KNOW-HOW

We utilise our expert knowledge and industry specific technology to meet the challenges of New Zealand's unique rail and marine environments.

PEOPLE

Our culture has transformed in recent years, as our frontline-led High Performance, High Engagement programme engages our people, and we work towards being New Zealand's leading safety and health organisation.

RELATIONSHIPS

We are working towards being New Zealand's most trusted company and sustainable brand, as we move more than 19 million tonnes of freight, enable 35 million commuter journeys and carry more than one million tourist passengers each year.

ASSETS

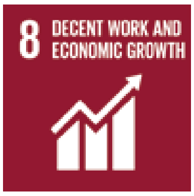
We continue to invest in our assets to correct a legacy of underinvestment in our bridges, tunnels, tracks, ships and rolling stock.

ENVIRONMENT

Every tonne of freight carried by rail is a 66% emissions saving over road, and we are working towards being net zero carbon by 2050.

SUSTAINABLE DEVELOPMENT GOALS

We recognise the role that the transport sector can play in advancing the Sustainable Development Goals, and will continue to support the delivery of these goals in line with our organisational strategy and business activities.



PERFORMANCE OF OUR BUSINESS






FREIGHT

Freight continues as the biggest revenue earner for us and contributes 59 per cent of total operating revenue.

The return to unrestricted operations on the Main North Line from October 2018, and growing customer confidence, saw our domestic business rebound, with a 25 per cent increase in revenue. We are continuing to explore options for increasing capacity on our key domestic freight routes, in particular from Auckland to Christchurch to further grow this aspect of our business.

We have continued to work with forestry owners and ports to explore options to manage the expected increase in log harvest over coming years. This includes conversion of more wagons for carrying logs, the development of log hubs at key locations around the country and the reopening of the Napier to Wairoa line.

We have also continued to work with our port partners and other stakeholders at a strategic level to progress initiatives which will see more customers using rail as an integral part of their supply chains benefitting not only our key import and export sector partners, but New Zealand as a whole. Our bulk business saw 12 per cent revenue growth, largely driven by international demand and lifting commodity prices.

DOMESTIC BUSINESS
25%
INCREASE
IN REVENUE

INTERISLANDER

The Interislander is a crucial link in the chain that joins the rail and road networks between Auckland and Christchurch. In FY19 more than 825,000 passengers and 260,000 cars were carried across Cook Strait. The Interislander also carried nearly 1.2 million lane metres of trucks and 560,000 lane metres of rail freight, including road bridged freight.

This year more than 99% of scheduled services operated as planned and 93% of these sailings were on or ahead of their scheduled arrival times.

This strong performance is reflected in the stronger customer satisfaction ratings the Interislander earned – 91 per cent as at June 2019.

We continue to plan for the future of our ferry fleet through Project iReX. The Inter-Island Resilient Connection project is progressing procurement of two new, rail-enabled ferries that will replace Interislander's aging Aratere, Kaitaki, and Kaiarahi ferries.

The next stage of the project will determine the overall cost of the new ships and terminal infrastructure, as well as determining funding and financing options.

The target timeframe is for the new ships to arrive in New Zealand from 2024.

825,000
PASSENGERS

260,000
CARS
CARRIED ACROSS
COOK STRAIT

TOURISM

The Great Journeys of New Zealand is the tourism brand for KiwiRail that unites three iconic train journeys – Northern Explorer, Coastal Pacific and TranzAlpine and the Interislander Cook Strait ferries. These journeys connect passengers with New Zealand's landscape, people, places and culture.

More than one million tourist passengers travelled on our Great Journeys of New Zealand network last year, many of whom explored regional areas of New Zealand such as West Coast, Ruapehu, Manawatu and the Waikato.

Today, visitors are again exploring Kaikōura, Blenheim, Picton and beyond. The Coastal Pacific returned in December 2018 with a 3 per cent increase in passenger numbers and 12 per cent increase in passenger revenue compared to the same period in 2016, the last full season. With the return of the Coastal Pacific, economic and social benefits have also returned to the associated communities.

Over the past year Interislander passenger revenue grew by 5 per cent. We have successfully brought in more customers during the quieter and colder months and overall have carried more passengers than ever before.

We are one of New Zealand's largest tourism operators, delivering one million tourists around the country and to some of the less visited regions every year.

Our award-winning scenic rail services are growing and, with visitor numbers to our shores expected to reach five million by 2024, there is potential to expand our operations for the benefit of regional communities.

MORE THAN ONE
MILLION
TOURIST
PASSENGERS

PROJECTS

We began several significant new projects this financial year, particularly with support from the New Zealand Transport Agency (NZTA) and the Government's PGF.

The bulk of work to reinstate the Main North Line was completed, with freight services resuming full time from October and Coastal Pacific scenic train resuming services between Picton and Christchurch from December 2018.

A six-year, $196 million, project has begun to renew track infrastructure and make improvements across the Wellington metro rail network, which will improve reliability of commuter services and enable future growth. A particular focus of this work is on replacing track, sleepers, bridges, improving ballast and drainage along multiple parts of the Wairarapa line. Track and the engineered ground in the two long tunnels on the Wairarapa line will be replaced, a major piece of work which will see the network returned to the state it was in when first opened in 1955. The Hutt Valley Line will also be double-tracked between Trentham and Upper Hutt, to reduce delays caused by the interaction of the Wairarapa service and Hutt Valley electric trains.

KiwiRail is currently refurbishing 11 carriages at Hutt Workshop for a trial daily Hamilton-Auckland passenger service. This new service, which is expected to begin in 2020, will play an important role connecting the two cities and the communities along the route, and supporting urban development in the North Waikato.

The Government committed more than $130 million to new regional rail projects through the PGF, including $80 million to increase capacity and introduce a new premium service to attract high-value tourists to the regions; and $40 million to purchase land and design a new road-rail freight hub near Palmerston North. This area is a crucial distribution centre for the lower North Island, with freight coming through from Napier, Taranaki and the Upper North Island. The hub will link to NZTA's planned road improvements, and will support greater integration of road and rail to help manage growing freight volumes and reduce congestion in Palmerston North.

Investment from the PGF also enabled the Napier to Wairoa rail line to be reopened for log trains in June 2019, after significant storm damage closed the line in 2012. Work has also begun upgrading the Castlecliff Line in Whanganui.

SIX YEAR **$196M** PROJECT

$130M NEW REGIONAL RAIL PROJECTS

MANAGE 9,000 LEASES AND GRANTS

$47M **PROPERTY REVENUE**

PROPERTY

As one of New Zealand's largest landowners, our team of property experts manage 9,000 leases and grants, including 900 commercial leases, and are responsible for documenting occupation of all rail land including the 3,400 public and private level crossings across our network. The total portfolio is valued at $3.6 billion.

We continue to work to improve our leasing revenue through a commercial approach to managing the portfolio and this has resulted in revenue from property climbing from $25 million in FY13 to $47 million in FY19.

We have 150 years worth of assets to protect, so improving our portfolio to ensure fit for purpose buildings that are safe, environmentally sound and developed for the future is key to our success.

KiwiRail Property is at the heart of New Zealand's strategic freight flows and we are developing many intermodal freight hubs across the country to ensure goods get to market in the most efficient way possible. That includes partnering with some key freight customers who lease land next to rail yards allowing for rail-served operations. These initiatives enable us to improve the efficiency of customers' supply chains and to generate income growth through long-term, sustainable, leasing arrangements.

We take our role seriously as guardians of the rail corridor for future generations, securing and protecting active rail land while disposing of assets that are no longer needed to fund future rail investments.

As a landlord, a landowner and a protector of land for future generations, kaitiakitanga is important to us. We aim to be a good neighbour and have lots of ways we can help those who live alongside us or need other assistance.

ROLLING STOCK

We are investing in new rolling stock and our maintenance facilities as we renew our asset base, to meet customer demand for our services.

In FY19 15 new DL Locomotives (Generation 2.3) purchased in 2016 were delivered and progressively commissioned. These locomotives have been deployed around the North Island.

We took delivery of 235 new intermodal wagons in July 2018, and in January 2019 placed an order for a further 450 wagons. All wagons are built to standard specification but to varying lengths. These are due in service by November 2019.

We continue to focus on investing in our mechanical facilities to support our fleet. This has included the ongoing development of our asset strategy and programme. Funding from the 2019 Budget will allow us to carry out major upgrades to our maintenance depots at Hutt and Waltham.

There is ongoing investment in organisational capability, with new members joining the team in asset management and asset-performance focused roles. We also continue with strong focus on safety with the introduction of standardised personal protective equipment across all our workshops (bump-caps and safety glasses).

WE TOOK DELIVERY OF 235 NEW INTERMODAL WAGONS

MIDLAND PORT

Growth at Lyttelton Port Company's (LPC) rail-served inland port at Rolleston over the past three years demonstrates the crucial contribution rail makes to sustainable transport networks and supply chains around the country.

Lyttelton Port Company's Marketing Manager Simon Munt says MidlandPort has exceeded expectations since it opened just over three years ago, and now handles more than 10 per cent of the port's overall business.

"In 2016, two or three trains a week were moving containers to and from Midland to the Port. Now, KiwiRail operates up to sixteen return services a week from Midland.

"Not only is this taking at least 120 trucks off the road each day, it is ensuring that containers are moved to and from the Port efficiently without traffic delays and at lowest cost to customers.

"A number of containers moving through MidlandPort never touch the road, making MidlandPort a key part of reducing our customers' carbon emissions and providing a sustainable logistics solution."

> *"Not only is this taking at least 120 trucks off the road each day, it is ensuring that containers are moved to and from the Port efficiently without traffic delays and at lowest cost to customers."*
>
> *Simon Munt, Marketing Manager, Lyttelton Port Company*

Mr Munt says some LPC customers are benefiting from a more than 50 per cent carbon emissions reduction by using a supply chain that includes MidlandPort.

"Like LPC, many of our customers have strong commitments to sustainability and ambitious carbon emission reduction targets so we're focused on helping them achieve those targets.

KiwiRail Chief Operating Officer Todd Moyle says the success of the MidlandPort operation demonstrates the crucial contribution rail can make to transport networks in this country.

"With freight volumes expected to grow significantly in coming years we will need all our transport networks working together to ensure our goods get to market. Using rail as part of a multi-modal supply chain benefits everyone by minimising emissions, reducing road congestion and maintenance costs, and improving safety.

"Road congestion along Brougham Street has been identified for many years as an impediment to the supply chain, so we are very pleased to be playing our part in resolving that issue."

FINANCIAL

INPUTS

OPERATIONAL REVENUE, GOVERNMENT INVESTMENT, GRANT FUNDING, ASSET SALES PROCEEDS, DEBT FUNDING

VALUE

THE ECONOMIC VALUE OF RAIL TO NEW ZEALAND TOTALS $1.5 BILLION EACH YEAR.

FY19 HIGHLIGHTS

- Operating surplus[1] of $55 million which is up by $6 million compared to 2018
- Overall revenue up by 11%
- Solid growth in rail freight revenue - $39 million up on last year (excludes impact of fuel cost recovery)
- Growth in domestic freight revenue of 25% following the full reopening of the Main North Line
- Growth in forestry revenue of 12% as the Wall of Wood comes onstream and we increase our log wagon fleet
- Growth of bulk freight revenue of 12% with a strong coal market
- Strong year for tourism – up by $7 million on last year
- Transitional funding committed for FY20 and FY21 in Government Budget
- $300 million earmarked in the PGF for regional rail projects

FY20 FOCUS

- Working with Government to secure long-term sustainable funding through the Future of Rail initiative
- Grow revenue through continued strong tourism and the relationships with customers across the freight markets
- Manage cost pressures from increasing compliance and regulation, and increasing fuel prices and insurance premiums

1. Operating surplus represents earnings before depreciation & amortisation, interest, impairment, capital grants and fair value changes. FY19 Operating surplus excludes impact of non-recurring items.

We delivered an underlying operating surplus[1] of $55 million, up $6 million on last year, driven by a $39 million increase in rail freight revenue and increased utilisation of the Main North Line following the Kaikoura Earthquake closure.

Despite the challenges of the markets we operate in, there were areas of strong growth. Domestic revenue was up 25 per cent following the full reopening of the Main North Line and strengthened customer confidence.

Tourism revenue was strong, up 7 per cent with a record summer season, high customer satisfaction and consistently high operational performance.

Forestry revenue was up 12 per cent with strong export demand and we are meeting demand with increases to our log wagon fleet. Bulk freight revenue was up 12 per cent despite a shortened milk season, with strong coal and export markets. Tourism revenue was strong, up 7 per cent with a record summer season, high customer satisfaction and consistently high operational performance.

FUTURE OF RAIL REVIEW

Future of Rail is a Government review led by the Ministry of Transport to formally set out the purpose of rail within New Zealand's wider transport system, the wider economic benefits that rail provides, and the optimal structure and funding for rail. The initiative will set a long-term path towards sustainable funding and promote the Government's mode-neutral approach to an integrated transport plan.

We welcome the review, and have worked closely to support the review with the Ministry of Transport, Treasury and NZTA throughout FY19. The outcomes of the review will be reported back to the Government this year.

PROVINCIAL GROWTH FUND

The Provincial Growth Fund (PGF) has been established by the Government to support regional economic development and lift productivity potential in the regions. Our participation in this programme is allowing further rail investment in the regions.

In Budget 2019, Government earmarked $300 million from the PGF for rail projects that can have a real benefit for the regions. We are talking to the Government about investment options. This is in addition to PGF funding approved in FY19 for regional rail expansion through a North Island freight hub, and tourism investment in the South Island.

GOVERNMENT POLICY STATEMENT ON LAND TRANSPORT AND NATIONAL LAND TRANSPORT FUND

The Government's Policy Statement (GPS) on land transport took effect on 1 July 2018. The GPS outlines the Government's strategic priorities and provides guidance on how the National Land Transport Fund (NLTF) will be spent. The four strategic priorities in GPS are safety, access, environment and value for money.

The GPS signals a shift to a mode neutral approach to ensure that all transport modes are considered when planning and funding land transport activity. A new transitional rail funding class has been created to ensure that priority passenger rail projects can be advanced while the Future of Rail project is in progress. GPS notes that a second stage GPS will consider the role and funding of rail further and will be informed by the Future of Rail.

The Government's support has delivered new opportunities through the NLTF for transitional rail projects such as the Hamilton to Auckland commuter service, Auckland Metro projects, and Wellington Metro projects including Wairarapa line renewals and double tracking of Trentham to Upper Hutt.

FINANCIAL STATEMENTS

The financial statements are included from page 64 onwards and detail the financial performance for the year and the financial position at 30 June 2019.

Notes which may be of particular interest are:

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

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

Note 8 (c) – Impairment of Non-Financial Assets – explains why KiwiRail impairs $381 million of railway infrastructure assets

Note 24 – Financial Risk Management Policies and Objectives – explains the financial risks KiwiRail faces, how these risks impact the financial statements and how KiwiRail manages these risks

1. Operating surplus represents earnings before depreciation & amortisation, interest, impairment, capital grants and fair value changes. FY19 Operating surplus excludes impact of non-recurring items.

SELLING MORE THAN JUST A JOURNEY

KiwiRail's tourism had a record year, with revenue up by $7 million on last year.

Key to that success is selling KiwiRail tourism services as more than just a way of getting from A to B, but as an experience on to which other experiences can be added.

That means partnering with the tourism industry to sell the unique package we can offer, and the best way to do that is to let them have that experience themselves.

In April, we ran our first-ever mega familiarisation (famil) on rail with the Coastal Pacific, and on sea with the Interislander.

The aim was not only to showcase the return of Coastal Pacific but also show off what the regions it travels through can offer tourists. Nearly 50 of the country's top travel sellers took part in a full Great Journeys experience around Kaikoura and Marlborough, and across the Cook Strait in Wellington.

> *"It is my belief that the Coastal Pacific will become the jewel in our crown, as the route enables a destination with start and end points with a plethora of activities and experiences that can be taken in along the way."*
>
> *Ahleen Rayner Head of Tourism and Marketing*

Sellers experienced local tourism initiatives and local food, from whales and albatrosses in Kaikoura to the marvels of the Weta Workshops in Wellington, and the culinary heights of a special dinner at Bellamys in the Beehive.

The payoff will come when the agents are asked to recommend experiences to their clients, and they will be able to speak from first-hand knowledge.

The event also underlined that KiwiRail is not the only business to benefit from getting passengers on to the Coastal Pacific. Partnering with regional tourism providers helps us complete the visitor experience but also drives regional growth.

Great Journeys of New Zealand brings visitors into areas that are often overlooked. At the top of the South Island those passengers are estimated to spend $34 million a year, and support about 300 local jobs across the Marlborough and Kaikoura regions. The newly reopened line is a crucial driver of regional growth.

PEOPLE

INPUTS

3,700 PEOPLE
ACROSS 50 TOWNS
AND CITIES

VALUE

HIGH PERFORMING AND
HIGHLY ENGAGED TEAM

FY19 HIGHLIGHTS

- Staff engagement hits record high with Employee Net Promoter Score reaching to +24 in 2019, up 23 from +1 in 2018, improvement on a low of -21 in 2016 and -7 in 2017
- 13,600 Safe Work Conversations recorded over the year, a 212% increase on previous year
- High Performance High Engagement (HPHE) has 13 initiatives underway across the business, including higher facility usage and reduced out-of-service times from maintenance depot roster changes using HPHE principles, HPHE V2 training and material under construction for different levels across KiwiRail
- Increasing focus on diversity and inclusion with launch of network groups underway: Women, Rainbow and Young Professionals
- Operations restructure implemented to bring all operational teams together into one team
- Safety Culture survey with 2,011 people taking part, providing 8,000 comments. 53% of participants believe we are better than other companies or as good as the best in the world

FY20 FOCUS

- Actively sustaining a Zero Harm environment where the safety of employees, contractors, customers and the general public is the top priority
- Embed a culture of respect and engagement, working with unions and applying the experience of front line workers with managers to solve business challenges
- Develop self-managing teams in the workplace who use continuous improvement tools to work safely, productively and efficiently
- Continue to grow our future leaders through offering programmes aligned to our values, our core principles such as the Toi Toi Maori Leaders programme which takes a holistic, Te Ao Maori approach
- Maximise the contributions of our union partners and our managers and strengthen the roles and capability of both in the workplace
- Implement HPHE and behavioural framework into learning programmes to ensure we meet customer and business needs
- Develop workforce and talent acquisition plans for each part of our business to ensure we are ready for the immediate and longer-term horizons
- Progress the development of our Diversity and Inclusion strategy

We are one of New Zealand's largest employers, with staff proudly operating in more than 50 towns and cities across the country. We have made significant improvements in our people culture over the past few years, highlighted by our High-Performance, High Engagement programme and a rapidly-increasing engagement score.

A key feature of our culture is that we encourage ideas from front-line teams to help improve our business. Under the banner of 'High Performance, High Engagement' (HPHE), we work closely with our union partners to empower frontline staff to find solutions to challenges facing the business. Drawing on elements of continuous improvement, we have seen enhancements in safety, productivity and staff engagement.

Staff engagement has risen considerably over the past three years. Our employee net promoter score (eNPS) was -21 in 2016, with staff reluctant to recommend KiwiRail as a place to work. Three years on, it has turned around and our eNPS score is now +24, with more people willing to actively promote KiwiRail as a good employer. There are still a few areas where we need to improve, but the cultural shift is encouraging.

During the year, we launched a new purpose to unite our team of 3,700 people. "Stronger Connections, Better New Zealand" has resonated well with people in all parts of our business and demonstrates our commitment to strengthening relationships with customers, communities and each other. Whether we're moving freight to ports, engaging with iwi or connecting tourists to some of New Zealand's most spectacular scenery, everything we do is about creating stronger connections and building a better New Zealand.

ZERO HARM

Critical to our business is our core value of 'Care and Protect'. We have embarked on a programme to shift how we view safety within KiwiRail. It started with a safety culture survey in September, which told us that, in general, people believe KiwiRail is a high-performer in terms of safety.

While we have seen significant improvement in safety performance over the past few years, a recent increase in incidents warns against complacency and of the need to remain firmly focused on our goal of 'zero harm'. Achieving this starts with a belief that every incident is preventable.

We have developed and commenced a series of workshops to challenge staff attitudes on safety and encourage a proactive approach to personal safety. An increased focus on near-miss and hazard reporting, local Health and Safety Action Teams, as well as an increasing number of Safe Work Conversations are helping us deliver a safer workplace for our people, contractors, customers and the public.

DEVELOPMENT OF OUR PEOPLE

We are committed to developing our people, supporting diversity and promoting Te Ao Māori within our business. Our successful graduate and mentoring programmes are nurturing young talent, and our Toi Toi Leadership Programme is developing leaders who are making a difference in their workplaces, with their whanau and in their local communities.
The ongoing development of our people as a means of attraction and engagement, increased productivity and safety is at the core of our people strategy.

We encourage and support a learning organisation by empowering employees in their personal and professional development. We have an expectation that all employees will be involved in some form of learning whether it be on the job, being coached or mentored, sharing knowledge through communities of practice, by attending formative programmes.

Learning at KiwiRail is heavily focused around technical operational skills, zero harm, industry recognised qualifications and leadership.

In the past 12 months 3,258 employees have been involved in some form of learning with KiwiRail. We also provide training for our contracting companies and those who may need access to our network. This year we have trained 6,157 individual contractors in specific rail safety and technical courses.

TALENT PIPELINE

We have grown our talent pipeline through our apprentice scheme, graduate programme and locomotive engineer school. To grow our talent pipeline, we have committed to additional graduates this year taking us from 5 to 20 and are due to commence our intern programme.

This financial year saw the introduction of our FutureYou programme and our partnership with Ministry of Social Development. We have successfully offered permanent employment to the graduates of this programme and have a retention rate of 91 per cent. After the successful pilot of FutureYou, there is an increased focus on supporting regional growth through employment and training opportunities with this programme moving forward. More information on FutureYou can be found in the case study on page 29.

LEADERSHIP AT KIWIRAIL

The KiwiRail leadership capabilities (focus the business, deliver results, engage customers, champion zero harm, empower people, develop self) describe how our leaders apply our values in the business. The ways KiwiRail demonstrated leadership training in the past 12 months include: Team Leadership (National Certificate in Business – Introduction to Team Leadership - Level 3), Toi Toi Maori Leadership Programme, People Leaders Forums, Presentation and Customer Service skills.

DIVERSITY FOCUS

We are committed to being inclusive and diverse, and several initiatives are underway to achieve that. The Diversity and Workforce Planning Committee continues to work on lifting the profile and number of women in the workforce. We continue to support a range of cultural initiatives, with Te Kupenga Mahi gaining significant momentum over the past 12 months. A 'rainbow network' has also started at our Wellington Railway Station site and is off to an encouraging start.

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

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

CREATING A RAINBOW SUPPORT GROUP

Following Pink Shirt Day, one of our staff offered the following reflection on the challenges of being gay in a New Zealand workplace:

It can be very scary being gay at work. You are always trying to second-guess how people might react if you told them and wondering what sort of reception you might get if you talked about your same-sex partner in the same casual and accepted way in which they talk about their husbands and wives. You have to spend a lot of each day with these people and if they react badly, it can ruin more than your day.

If you don't come out, you might find yourself in the unpleasant situation of having to tolerate anti-gay jokes in your workplace, for the sake of maintaining good working relationships.

A few months ago, prompted by our Diversity and Inclusion proponents, I sent a meeting notice out to everybody at Wellington Railway Station, inviting everyone who identifies as LGBTQI+ to come and discuss the formation of a Rainbow Network within KiwiRail. I received a range of responses, including apologies from those unable to attend, but I got an astonishing number of replies from straight people who said they wanted to come in the future to be supportive.

We had our first small meeting and decided we would welcome support from other colleagues and so a second meeting was held, this time with more straight people than LGBTQI+.

We resolved to model our network on the very successful Alliance of Gays and Straights which began with supportive groups in secondary schools, helping to provide safe places for young people questioning or asserting their sexuality. That movement became a nationwide one and is now known as the very successful group, InsideOUT Kōaro.

Our aim is to build a safe environment at work to be gay. Not being able to be who we are can cause enormous stress, especially if the environment is negative, intolerant or even aggressive towards gays. This is true whether you work on the tracks or in an office; on a ship or in a shunt yard. That kind of stress can lead to dissociation (trying not to be who you are), deceit and other dysfunctional efforts to fit in and be 'acceptable'. It can affect mental health and certainly one's general sense of wellbeing.

> *"Our aim is to build a safe environment at work to be gay."*

If we want to be fully functioning in the workplace, we need to know that it is safe to be who we are and that we can just get on with our jobs instead of doing that and constantly devising self-protective strategies just to get through the day. That is so exhausting!

We are fortunate in the level of support we have at the Wellington Railway Station. It would be good if we could have supportive groups pop up in other parts of the business as well. It is worth noting that every one of our Collective Agreements with unions includes a clause supporting LGBTQI+ employees and networks such as these.

Maryan Street
Employee Relations Manager

FUTUREYOU PROGRAMME

Twenty-year-old Emilia Cabral had studied performing arts before enrolling in the FutureYou programme. Now she has swapped musical theatre workshops for the intricacies of diesel locomotives.

In October KiwiRail launched a new initiative to grow its workforce and support the communities around its business operations. The FutureYou programme provides a combination of health and safety, workplace and technical inductions, on the job experience and personal development training.

KiwiRail runs the FutureYou programme in partnership with the Ministry of Social Development to provide practical training to people seeking work, with the intention to offer full time employment at the conclusion of the three-week programme.

Emilia heard of the FutureYou programme when she attended an introductory seminar that both opened her eyes to the employment possibilities at KiwiRail and reassured her she would fit in.

After successfully completing the course, Emilia was offered a permanent place at KiwiRail's Hutt Workshops.

> *"I'm really keen to work hands on and learn more about how diesel engines work"*
>
> *Emilia Cabral*

Jacob Ata has a different story. He was working towards a career in rugby when he was seriously injured in a game, requiring surgery. He was forced to rethink his future. His focus moved from sport to a career and that's when he attended a KiwiRail seminar at Work and Income. Excited by the opportunity, Jacob applied and was accepted on the FutureYou Programme.

After completing the programme Jacob was offered full time permanent employment with KiwiRail as a Trainee Signals Maintainer, with his next career progression step to advance to a Level 1 Signals Maintainer.

He has now completed his Electrical Service Technician and Electrical Appliance Serviceperson tickets and is working towards his Electrical Apprenticeship and Sigco qualification.

He says: "I like challenging myself every day and now have direction in my career by using my head and my hands. Why wouldn't you want to work for a company that is helping New Zealand economically? This is a job that gives you purpose and motivation and isn't just a job that you do for the sake of having a job."

Since the course began KiwiRail has been able to offer jobs to 75 per cent of the graduates and feedback from around the business is that the graduates are a huge asset to their teams and are excelling in their roles.

There are also benefits for KiwiRail says Group General Manager Human Resources Andrew Norton:

"As the Government invests in rail and KiwiRail plans for growth, we know recruitment is vital to make the most of the opportunities in front of us."

ASSETS

INPUTS

HARD-WORKING FREIGHT, INTER-ISLAND, TOURISM AND NETWORK ASSETS

VALUE

CONTINUED INVESTMENT IN OUR BRIDGES, TUNNELS, TRACKS, SHIPS AND ROLLING STOCK

FY19 HIGHLIGHTS

- Project iReX confirms two large rail enabled ferries to replace existing fleet
- Rolling stock and mechanical facilities replacement program underway, with 15 DL Gen 2.3 Locomotives delivered in October 2018 and all in commercial service
- Wellington Metro 98% on time performance for the 2,200 weekly services
- Received $8 million initial funding for the Hamilton to Auckland service, and promised a further $14.5 million in the short term. Work refurbishing the Hamilton-Auckland carriages is progressing well, and network and maintenance facility implementation work is about to commence
- Boost to regional economies through the PGF enabling: additional capacity and premium carriages on tourism services; reopening of Napier to Wairoa line; new regional freight hub in Palmerston North; Northland rail investigations; Whanganui's Castlecliff Line upgrade and other regional studies

FY20 FOCUS

- Development of concept design of preferred option of two large rail-enabled ferries, advancing procurement process and working with port companies on terminal requirements
- Fulfilling project work including Wellington metro upgrades - double tracking of Trentham to Upper Hutt, traction renewal, Auckland metro programme, Hamilton to Auckland service, Palmerston North Freight Hub, and North Auckland Line, sleeper replacement programme
- Procure additional carriages for our Great Journeys of New Zealand tourism services, allowing us to add capacity and extend the season of the Coastal Pacific
- Deliver with smart assets and connected networks
- Invest in network, facilities and rolling stock to enable safe, reliable and efficient services
- Increase digital platforms and capability

Rail is a driver of economic development and jobs delivered through our freight network, world-class tourism services, and the commuter services we enable.

Each year we move around 26 per cent of New Zealand's exports, transport more than one million tourist passengers on our Great Journeys' services and enable 35 million commuter journeys a year in Auckland and Wellington.

We keep our customers satisfied by ensuring our services are reliable and that they can be trusted to deliver on time. That means making sure our assets are up to standard.

The $1 billion funding boost announced by the Government in May 2019 will allow us to improve the resilience of the rail network, invest in much needed wagons and locomotives, and improve the productivity of our workshops so that rail services can be more reliable and operate more competitively in the market.

NETWORK INFRASTRUCTURE

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

In FY19 we spent $212 million on network capital expenditure (including contributions from other parties). This was primarily targeted on key freight lines to improve resilience and operational capacity to meet increasing freight volumes. This included continued work on the Main North Line to improve its resilience and reliability after the Kaikoura earthquake and led to the resumption of unrestricted rail operations in October 2018, and resumption of the Coastal Pacific in December 2018. We replaced 89,400 sleepers and put in 20,600 metres of new rail, and worked to replace or renew several bridges.

Work also continued on the Kaimai Tunnel to support our Golden Triangle freight business.

Funding contributions from the PGF enabled considerable focus on regional railway lines, particularly Hawkes Bay, Eastern Bay of Plenty, Taranaki, West Coast and lines south of Christchurch.

Work to restore the Napier to Wairoa line for forestry trains was completed in June 2019, following a $6.2 million grant from the PGF.

FERRY REPLACEMENT

In September 2018, we confirmed we would proceed with a business case to replace our existing three ferries with two new large, rail-enabled ferries. This option was determined as the best option to enable us to continue to offer reliable, efficient and resilient services to present and future requirements of three main customer segments – freight by rail, freight by commercial vehicles and passengers/ tourists.

At the same time, the project is also considering terminal options, including whether we could share facilities with other operators. Another major aim of

the project is to build resilience into the operation to ensure services can continue to operate in the event of disaster such as an earthquake.

We keep our customers satisfied by ensuring our services are reliable and that they can be trusted to deliver on time. That means making sure our assets are up to standard.

ROLLING STOCK UPGRADE

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

Funding of $375 million allocated in the budget will enable us to work towards replacing rolling stock that is at the end of its serviceable life and to upgrade maintenance facilities. This will include progressively replacing our South Island mainline locomotives, lighter duty mainline locomotives and shunt locomotives across the country, and replacing aging wagons.

During FY19 our teams began to develop specifications for the locomotives in preparation for beginning market engagement planned for later in 2019.

Fifteen new DL Class locomotives arrived in the country and have all been successfully commissioned at our Te Rapa maintenance depot before being introduced to service. These locomotives have been deployed around the North Island, allowing the retirement of some of our oldest locomotives.

We are continuing to build an intermodal wagon fleet to a standard specification but in varying lengths of 40, 50 or 60 feet to allow for operational flexibility.

The Budget funding will allow a further order of 900 wagons, to be used in our busiest corridors Auckland to Tauranga and Auckland to Christchurch.

We received a further 235 new container flat top wagons in July 2018, and in January 2019 placed an order for 450 more container flat top wagons due in service by November 2019.

Arrival of the new wagons allow us to convert 130 older container wagons into log wagons at our Hillside workshops. These are being progressively brought into service, allowing us to add capacity to our busy lower North Island traffic.

We also received PGF funding to procure additional carriages for our Great Journeys of New Zealand tourism services, allowing us to add capacity and extend the season of the Coastal Pacific.

Our teams are working on refurbishment of former Auckland commuter carriages to be used for the new Hamilton to Auckland rail service, which is expected to commence in mid-2020.

We have also continued with the redevelopment of our maintenance facilities and provision of next-generation technology on our rolling stock fleets to enable preventive and predictive maintenance. During FY19 we approved funding to establish a new wheel-set processing facility at our Hutt workshops, replacing machines that are up to 60 years old.

IREX

KiwiRail's Interisland ferry service is an essential transport link between the North and South Islands, connecting our communities and supporting our economy.

Renewing the fleet enables a step change improvement in the environmental outcomes compared to our existing fleet

The ferries are extensions of State Highway 1 and the Main Trunk Line across Cook Strait, linking road and rail networks between the two islands.

Our current fleet of three ships carries 825,000 passengers – many international tourists – and 260,000 cars between the islands each year.

Tens of thousands of trucks cross the Strait on our ferries each year. The rail-enabled Aratere sees more than 1,000 trains a year drive straight into the hull, carrying goods and vital commodities for communities in Christchurch and beyond, or for shipping north to be exported.

KiwiRail's current ferries, all built in the 1990s, are nearing the end of their useful lives and need replacement within the next decade.

Making sure we keep people and freight moving along our 'marine highway' is critical for New Zealand.

In September 2018 KiwiRail confirmed it would proceed with a business case to replace the existing fleet with two new large, rail-enabled ferries.

The proposed new ferries will have more road freight and car capacity, and significantly more rail freight and passenger capacity than the existing three ships, which allows for forecast growth.

Renewing the fleet enables a step change improvement in the environmental outcomes compared to our existing fleet.

The new ships also mean changes to the terminals at each end of Cook Strait. KiwiRail is in the process of working with other project partners such as Port Marlborough and CentrePort to consider how terminals would be redeveloped to accommodate the new ferries.

The target timeframe is for the new ships to arrive in New Zealand from 2024, with Aratere, Kaiarahi and Kaitaki to be taken out of service when the new ships are commissioned.

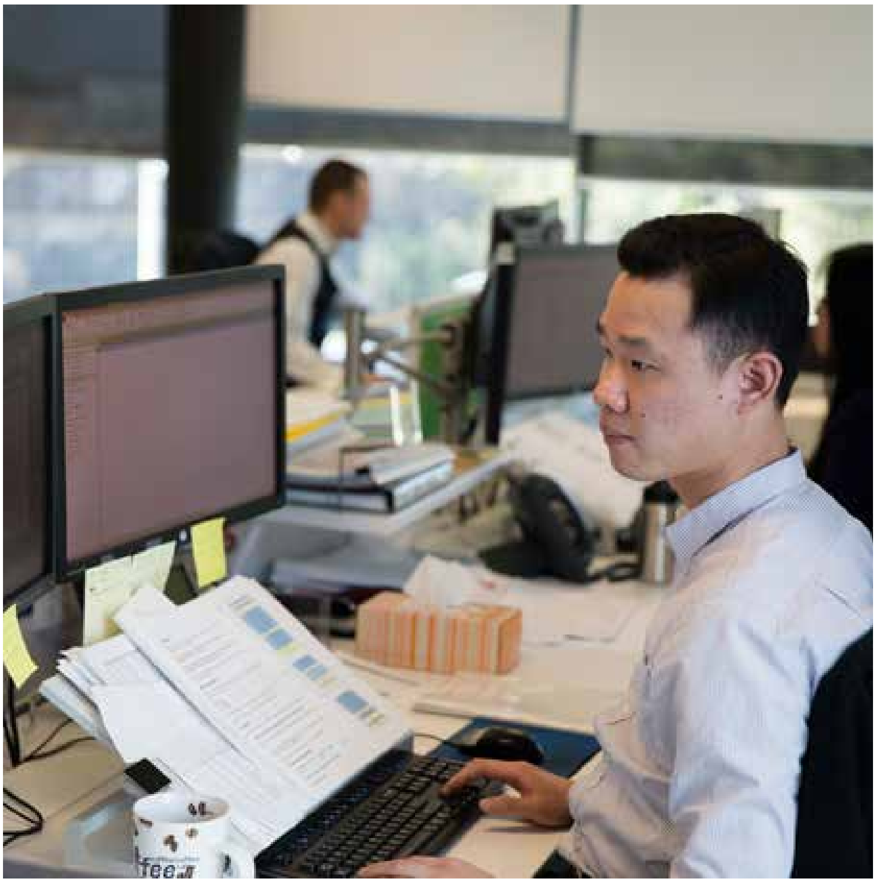
SKILLS AND KNOW-HOW

INPUTS

SPECIALIST RAIL AND MARINE KNOWLEDGE, BUILT UP OVER MORE THAN 150 YEARS

VALUE

EXPERT KNOWLEDGE AND INDUSTRY SPECIFIC TECHNOLOGY MEETING THE CHALLENGES OF NEW ZEALAND'S UNIQUE RAIL AND MARINE ENVIRONMENTS



FY19 HIGHLIGHTS

- Napier to Wairoa line opened on time. Significant recovery effort September to April rebuilding Raupunga landslip. Excellent team work from all parts of KiwiRail
- Kaikoura rebuild won global award – Institution of Civil Engineers People's Choice Award
- Placements confirmed for 56 new Locomotive Engineers with an additional intake being planned
- New governance structure for significant project investment in place

FY20 FOCUS

- Ensure we have fit for purpose solutions that build technical and commercial capability
- Growth through agility, initiative and collaboration
- Develop key skills for the future (innovation, creativity, problem solving)
- Attract, develop and retain talent and transition to a more diverse workforce
- Grow our apprenticeship and youth training programmes

Our people are experts in their field and leaders in the rail and ferry industries. They are renowned for their innovative approach to developing solutions that perform in New Zealand's unique and challenging environment.

REINVIGORATING REGIONS

One of the year's highlights has been the tremendous work conducted to reinstate the Napier to Wairoa line, which had been mothballed following severe storm damage in 2012. Our teams led an impressive operation to move 5,000 tonnes of earth, bring in another 14,000 tonnes of earth, lay 500 metres of new track and complete work on 115 kilometres of the corridor to prepare the line for services.

Perhaps more remarkable was the work done to clear a slip that occured part way through the rebuild. A weather event in September 2018 left 45 metres of track swinging in the air near the township of Raupunga. Working with local contractors, our team built a reinforced granular embankment, re-laid the track and employed our tamper to complete final track alignment. All of this allowed work trains to continue working on the wider Napier to Wairoa rebuild, which was successfully completed in June 2019.

MAINTAINING OUR HERITAGE

In October 2018, we marked an historic moment during the refurbishment of the 129-year-old Waiteti Viaduct. Built in 1889, the Heritage-listed viaduct spans the Waiteti Stream between Te Kuiti and Puketutu. The 128.6 metres long, six-span bridge is 25.6 metres at its highest point and is one of the first great bridging viaducts built on the rail line between Auckland and Wellington. Ironbark corbels more than 100 years old were removed from the viaduct. The new corbels weigh around 450 kilograms each and technical rigging was required to get them in place. Refurbishment work on the bridge included walkway upgrades, strengthening of king posts, replacement of corbels, repairs on beams and water blasting of the steel structure. Through the combined efforts of our teams and Abseil Access, the line remained open throughout the work for both passenger and freight operations.

USING TECHNOLOGY TO PRESERVE THE ENVIRONMENT

Skills and know how were on display during a significant cleaning operation inside Otira Tunnel. Sitting on the Midland line between Otira and Arthur's Pass, Otira Tunnel measures an impressive 8.6 kilometres in length. At the time of its opening in 1923, it was the longest tunnel in the Southern Hemisphere, and is still second only to the Kaimai Tunnel. Over the years, its ventilation system had deposited sand and coal dust throughout the tunnel, which built up on the walls and floor, creating a 'mountain range' balanced along the top of power and communication cables.

In 2015 we committed to cleaning it up and, after a rigorous design and engagement programme, made it happen. The tunnel has a fast-flowing drain and coal and sand dust is soluble, so it was decided to sluice the dust down the drain and out to Otira for treatment. This would reduce the risk of working in a dusty, high-risk environment – one of our primary objectives for the project. Two years were spent developing the solution, using technology never before seen in New Zealand. Our design team, led by OPUS with input from specialists including Southwater Ltd and Waikato University, came up with a solution to remove the coal from the water as it flowed instead of using huge settling ponds. Ponds could not be used because there was no room for them. That meant treating two million litres of water in an eight-hour cleaning shift, cleaning the water as it flowed before returning it to the river, clean and environmentally safe. The plant was completed in late 2017 and cleaning began in earnest during the 2017/2018 Christmas block of line. The quality of the water going back to the river could be considered three to five times cleaner than what you would find in any South Island natural water course.

APPLYING EXPERTISE TO SAVE LIVES

In the safety area, we have worked alongside Auckland Transport to install automatic gates on some of the city's busiest – and consequently riskiest – pedestrian crossings. The crossings have an automatic gate and an emergency gate allowing people who need to exit the crossing area a way out by pressing a button. The new gate arrangement is based on designs used in Australia and has proven very effective in encouraging positive behaviour around level crossings. The gates are primarily to protect against the 'second train risk'. This is where people see one train pass a crossing and assume the track is then clear, so proceed to cross before the lights and bells have deactivated, when there is another train coming from the other direction.

Further improvements to safety have come through using digital technology, with the roll-out of our 'K2' app. Conversations about safety, health and environment, as well as near misses and hazards, are now recorded via mobile devices or computers. By simplifying the process, we are not only reducing the amount of paper forms in our business, we're supporting a culture shift that will support a Zero Harm workspace.

NAPIER TO WAIROA

On a misty winter's day in mid-June, more than 100 people enjoyed the rare treat of travelling by passenger train from Napier to Wairoa through the scenic countryside of northern Hawke's Bay.

The special journey, made to celebrate the restoration of the rail line between the two centres, was greeted with widespread support from well-wishers who turned out at numerous locations along the route to cheer on the train as it made its journey northwards.

During a brief stop at Eskdale, students from neighbouring Hukarere Girls College were on hand to perform waiata for train passengers and at the end of the journey in Wairoa local students performed a rousing haka to mark the train's arrival.

Restoration of the 115-kilometre stretch of rail was funded by an allocation of $6.2 million through the Government's PGF to enable trains to carry the district's logs to port.

Moving logs by rail takes pressure off regional roads that were never designed for the volumes of logs that are coming on stream

The amount of timber flowing from forests in the region is expected to quadruple in the next four years. Around 150,000 tonnes of logs are expected to be harvested in the Wairoa area in 2019, with volumes predicted to reach close to 600,000 tonnes a year by 2023.

Discussions with forestry industry have highlighted the need for all transport networks to be working efficiently together to get the region's logs to market, and the PGF funding has meant KiwiRail is ready to meet that demand.

Moving logs by rail takes pressure off regional roads that were never designed for the volumes of logs that are coming on stream.

Restoration of the line has seen more than 12,000 cubic metres of ballast laid down, almost 3,000 sleepers and 435 metres of new track installed, as well as work on bridges, culverts and signals.

With the restoration of the line now complete, KiwiRail's focus is to establish a log hub in Wairoa.

KiwiRail is taking a staged approach to meet the growing demand for log transport in the forests around Wairoa, and will initially run two services a week.

However, it is expected that there will be trains running up to six days a week when harvesting gets into full swing, and the Wall of Wood arrives.

That means more than 5,000 fewer truck journeys from Wairoa to Napier a year initially, rising to more than 15,000 as our services increase. At peak, that also reduces carbon emissions by 3,800 tonnes a year.

RELATIONSHIPS

INPUTS

RELATIONSHIPS WITH CUSTOMERS, SUPPLIERS, CONTRACTORS, SHAREHOLDING MINISTERS, GOVERNMENT AGENCIES, UNIONS, EMPLOYEES, IWI, AND THE COMMUNITY

VALUE

WORKING TO BECOME NEW ZEALAND'S MOST TRUSTED COMPANY AND SUSTAINABLE BRAND AS WE MOVE MORE THAN 19 MILLION TONNES OF FREIGHT, ENABLE 35 MILLION COMMUTER JOURNEYS AND CARRY MORE THAN ONE MILLION TOURIST PASSENGERS EACH YEAR

FY19 HIGHLIGHTS

- Customer satisfaction ratings for Interislander at 91%, up +1% on last year
- Successful Project Wāheke with 32 in-depth customer interviews and four primary archetypes
- Full reinstatement of Main North Line with Coastal Pacific reopened in December 2018, which was welcome news for Kaikoura, as the trains bring in tourism which plays a significant part in the local economy
- Developed relationship with Napier and Hawke's Bay hapū during the process of opening the Napier to Wairoa line

FY20 FOCUS

- Focus on putting customers at the centre of our decision making
- Focus on providing a safe, efficient and reliable service for customers
- Open up new growth and partnering opportunities
- Grow and leverage social media channels
- Drive regional growth by delivering on PGF investment
- Creation of quality Kawenata across the country to engage with hapū / iwi
- Prison programme to be run in Northland 2020
- Increase our focus on public safety over the coming years with a three-year rail safety campaign which we'll be putting into action across New Zealand

PROJECT WĀHEKE

Today's customer lives in tomorrow's world where information is instant, decisions are timelier and connections are stronger.

By incorporating technology into our business, we have taken initiatives to address the needs of our customers and put them at the centre of our business. The goal is for it to become seamless for customers to transact with KiwiRail, inspiring confidence that we can deliver their needs.

Before, our customers would often get multiple invoices for a single freight movement. We removed the frustration and confusion by simplifying the billing process so that only a single invoice is sent and only when customers receive their freight, making certain that the journey they took with us was reflected accurately in their invoice. By better integrating our own systems and focussing on easing our customer transactions we have reduced the amount of waybill rework by over 50% from the previous year.

Booking with KiwiRail has also become more straight forward. Electronic bookings are now being rolled out to our large IMEX customers, with domestic customers to follow shortly. In the last month of FY19, 48% of all bookings that would have been made manually and gradually by our customer logistics teams were made electronically and instantly by our customers themselves. This allows our customer teams to focus on our customers' business, opening up opportunities and strengthening our relationships.

CONNECTING WITH LOCAL COMMUNITIES

Over the last year we have expanded our community ambassador programme. Our ambassadors are enthusiastic members of our team based around the country. In their ambassador role, carried out in addition to their main job, they help strengthen our relationships with local communities, including schools, businesses and service groups.

We ran workshops to help the team identify outcomes that are valued by both us and the wider community, including promoting rail safety and reducing graffiti, and to help them gain skills to partner on local initiatives. Our ambassadors supported our rail safety programme in schools and at community events like Ports of Auckland's annual SeePort festival.

BUILDING COMMUNITY SKILLS

Employment and training opportunities are important to communities.

In June, our team hosted career workshops in Napier and Wairoa to equip Ngāti Pāhauwera rangitahi (young people) with the skills and tools they need to gain employment.

In the same month, we signed a four-year sponsorship with the First Foundation to offer a deserving young person a scholarship and paid work experience, and support other students in their studies and career aspirations.

We also entered a three-year agreement with TupuToa, which helps Māori and Pasifika students into corporate internships. In coming years, we will provide three summer internships each year, together with cultural competence training for our team.

SUPPORTING LOCAL CAUSES

We support local causes across the country. For example:

- Our Wellington team donned their gardening gloves to help the Sustainable Coastlines Trust clean up reclamation land to the north of our ferry terminal
- The Interislander helped the Marlborough Sounds Restoration Trust control the spread of wilding pines and offered free travel to enable Project Jonah's Marine Mammal Medics to attend to stranded whales
- Our Great Journeys team donated travel vouchers to help community groups raise funds
- Our people took part in community events around New Zealand, including spreading the rail safety message at the Feilding Santa Parade

SAFETY AROUND THE RAILWAY TRACKS

We work hard to help people stay safe around the railway tracks.

We continued to sponsor and work closely with TrackSAFE New Zealand, a charitable trust that raises awareness of rail safety and educates the public on how to keep themselves safe around tracks and trains. The annual Rail Safety Week campaign is a collaboration with TrackSAFE New Zealand.

In August 2018, we launched a national campaign for Rail Safety Week, reminding people to 'Look right, look left for trains'. The campaign featured prominently across the Auckland and Wellington commuter networks and on regional radio. It generated significant media interest, and strengthened relationships with our rail and road safety partners, including local councils.

In March 2019, we launched an extensive regional safety campaign to support the reopening of the Napier to Wairoa line, reminding local people to 'expect trains' on the line again. We also invested in fencing and new signage to help keep people safe.

We also worked with owners of many of the 1,900 private level crossings across the country (where private landowners like farmers use a crossing over our railway line) to ensure they hold valid deeds of grant for the crossing and understand their responsibilities to keep people safe.

SOCIAL MEDIA CHANNELS

More people want to connect with us and are doing so online through our social media accounts. In December 2016, we launched Facebook and Twitter accounts, followed by Instagram in 2017. Our Facebook page has now amassed 14,000 followers, gaining close to 250 new followers per month over the past year.

Social media continues to be highly useful communication tool for our business, used to share safety messages, celebrate new achievements, and to provide updates on our key projects. It provides the public with a convenient and transparent way to interact with the organisation.

14,000 followers
2,985 new followers in FY19
60% male **40%** female
An average **250** new followers per month
74% registered in New Zealand
26% registered as international

1,240 followers
254 increase on FY18

LEVEL CROSSINGS SAFETY

Crashes at level crossings are devastating. They can destroy lives even when they don't end in fatalities.

The number of collisions at level crossings remains stubbornly high – there were 79 over the period of 2016-2018 compared with 83 over 2015-2017.

KiwiRail strives to improve safety performance at level crossings, but cannot do the job on its own.

Success means working in partnership with other organisations with an interest in road safety.

KiwiRail is working with NZTA through the Safe Roads programme. A total of $26 million is being spent to make crossings safer for drivers and pedestrians by using low-cost improvements to prevent deaths and serious injuries, targeting crossings on or near state highways.

Forty-five sites are being looked at in FY19-21, and another 45 in FY22-23.

Measures put in place include flashing lights and bells, barrier arms, better signs and markings, better view lines, guardrails, streetlights, pedestrian mazes, gates and lighting, active warning signs that give drivers advanced warning they are nearing a crossing, surface improvements, escape bays and slip lanes.

KiwiRail is also working with Auckland Transport, Greater Wellington Regional Council and local councils.

That co-operation is especially important in areas where commuter trains operate and the number of pedestrians and cyclists is growing.

"Our focus is on continuous improvement in our processes to deliver consistent risk assessments and recording, and developing a centralised database of work," says Project Management Office General Manager Parizad Wood.

"We are aiming to deliver crossing upgrades within our budget constraints. To achieve that we are trialling cost effective innovations such as LED lights to alert pedestrians that they are getting near a crossing.

"Level crossing safety is an area of vital concern to us and we are determined to get it right."

ENVIRONMENT – STEEL WHEELS AND FONTERRA

Our Steel Wheels programme for customers provides a transparent report on the environmental impact of rail through avoided truck trips and reduced CO_2-e emissions. The success of our Steel Wheels programme, which highlights carbon emissions and fuel savings for customers shifting freight by rail, points to the growing need to enable our customers to tell their own environmental stories when they enjoy the environmental benefits that using rail provides. Helping customers to tell those stories and to share them with the public is a part of rail's global evolution.

For one of our largest customers, Fonterra, over the last four years this has meant an estimated total of 700,000 truck trips avoided, 40 million litres of fuel saved and 108,000 tonnes of carbon emissions avoided by using rail for freight transport. At Mosgiel, Dunedin, Fonterra has gone from a 30/70 road to rail mix three years ago, to now 100 per cent rail.

> *"With rail infrastructure built into many of our manufacturing sites and distribution centres, shifting freight from road to rail is an important aspect of our strategy to reduce carbon emissions from freight transport"*
>
> ***Brendan Miller, GM Global Supply Chain Network, Fonterra***

"With rail infrastructure built into many of our manufacturing sites and distribution centres, shifting freight from road to rail is an important aspect of our strategy to reduce carbon emissions from freight transport", says Brendan Miller, GM Global Supply Chain Network at Fonterra. "Working with KiwiRail and Coda, our land transport logistics partner, we continue to explore innovative solutions."

With New Zealand's carbon targets being established, more and more organisations are measuring and monitoring their own carbon footprints. As rail transport is 66 per cent more carbon-efficient than heavy road freight, KiwiRail is helping our customers reduce their carbon footprints.

Rail is the more carbon-efficient mode of freight transport and Steel Wheels continues to communicate this to our customers. Through KiwiRail's Carbon Zero Programme and longer-term strategy towards a low carbon future, we aim to become even more carbon-efficient through the implementation of emission reduction initiatives across the business, and research into low carbon fuels and technologies.

ENVIRONMENT

INPUTS

WE OPERATE THROUGHOUT THE COUNTRY INCLUDING CITIES, FARMLAND, NATIONAL PARKS, AND COOK STRAIT

VALUE

EVERY TONNE OF FREIGHT CARRIED BY RAIL IS A 66% EMISSIONS SAVING OVER ROAD

FY19 HIGHLIGHTS

- Achieved 58% of our 2020 Energy Reduction Target (73.5 GWh) which equates to reductions of 10,929 tonnes of CO_2-e emissions
- Locomotive fuel burn had a 6.1% improvement on Base Year FY16
- Interislander sailing fuel performance had a 2.8% improvement on Base Year FY16
- Addition of electric vehicles to fleet at Auckland and Wellington offices

FY20 FOCUS

- Continue energy reduction initiatives across business to meet our June 2020 Energy Reduction Target (73.5 GWh)
- Improve Interislander sailing fuel performance through more efficient fuel monitoring and reporting
- Continue to optimise Driver Advisory System (DAS)
- Implement recommendations from circular economy waste review
- Establish sustainable procurement process to minimise negative impacts and enhance social and environmental impacts with particular focus on large assets
- Investigate alternative low carbon fuel and technologies

We operate throughout the country including cities, farmland, national parks, and the Cook Strait. We play a critical role in New Zealand's transport system and in the health of the economy, our communities and the natural environment so we must reduce and mitigate the impacts of our operations across these spaces.

We have been an active member of the Sustainable Business Council (SBC) since 2014, and was one of the founding signatories to the Climate Leaders Coalition commitment in 2018, which promotes business leadership and collective action, committing us to take voluntary action on climate change. The coalition's goal is to help New Zealand transition to a low emissions economy and, in doing so, create a positive future for New Zealanders, business, and the economy.

Being an energy efficient mode of transport has given us a unique advantage with rail playing an important role in a low carbon transport network. Our services provide cost effective and sustainable ways to move goods, supporting our customers to grow New Zealand's economy. Every week more than 900 freight trains – almost 130 a day – operate on our 3,700 kilometres of network from Otiria to the Bluff. It is important that we continue to build on this position, identifying opportunities to use less fuel to progress towards a low carbon future, and to assist the government in meeting its climate-related targets.

ENERGY EFFICIENCY AND EMISSIONS

The transport sector accounts for 19 per cent of New Zealand's carbon emissions, with emissions from rail accounting for just 1 per cent of that total. According to a report prepared by EY, it is estimated that without the rail network there would be a further 488,000 tonnes of CO_2-e emissions by vehicles every year.

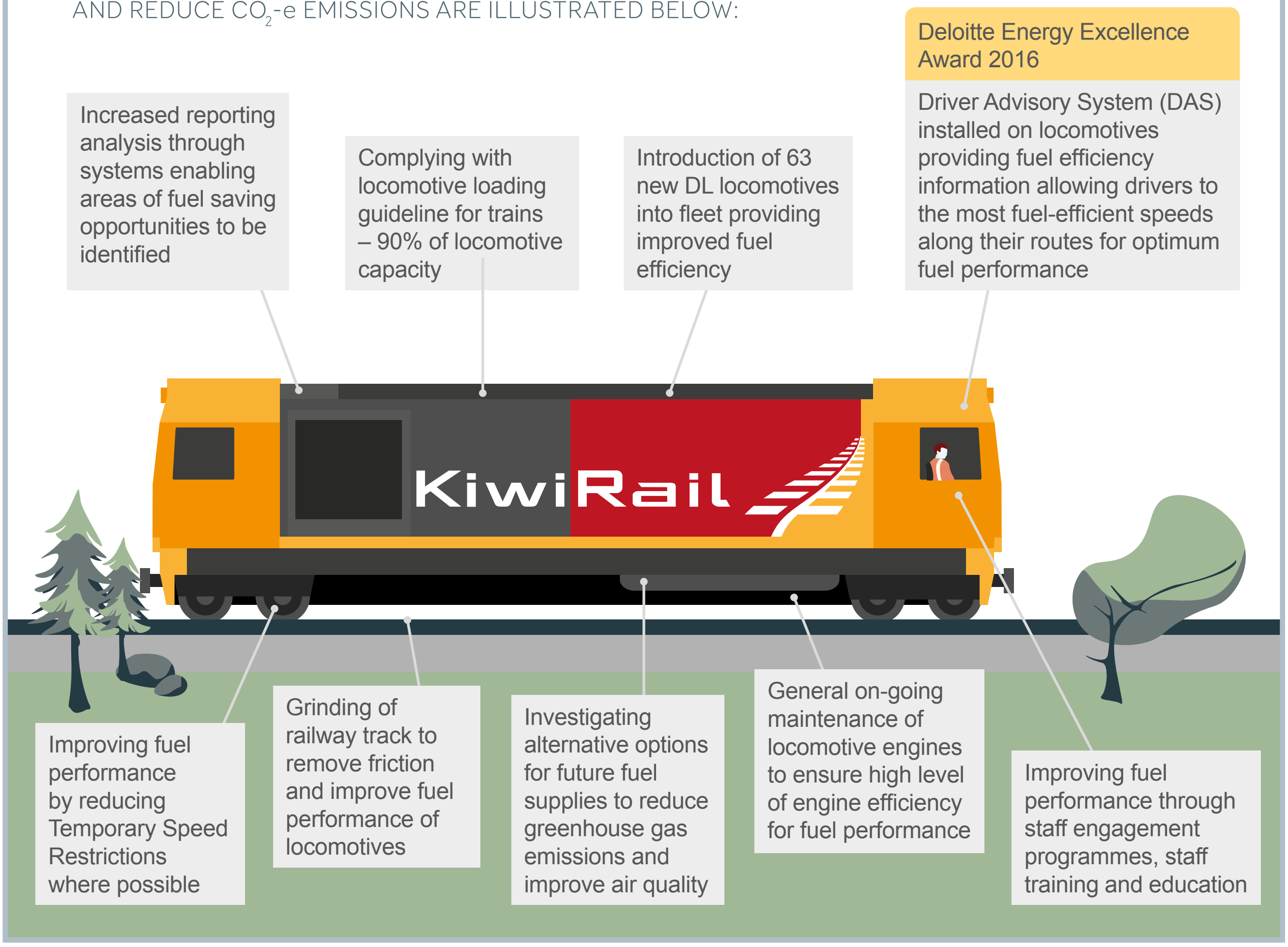
In FY19, we transported 19 million tonnes of freight which saved the equivalent of 260,000 tonnes CO_2-e emissions compared to if the same volume total was transported by road. This represents a 66 per cent carbon emission savings over heavy road freight and reduced heavy vehicle impact by more than one million truck trips per year.

We have also helped to reduce New Zealand's overall carbon emissions from transport through enabling commuter rail services

ENVIRONMENTAL PERFORMANCE

	FY16	FY17	FY18	FY19
	2015-16	2016-17	2017-18	2018-19
Rail Freight Carbon Intensity (grams CO_2-e emissions per net tonne kilometre)	28.83	28.28	27.76	27.02
Carbon emissions - direct (tonnes of CO_2-e emissions)	269,387	235,395	230,934	240,068

FREIGHT TRAINS HAVE REDUCED THEIR FUEL BURN BY 6.1 PER CENT SINCE FY16. SOME OF THE OTHER INITIATIVES ACROSS OUR RAIL FREIGHT SERVICES THAT HAVE HELPED IMPROVE FUEL EFFICIENCY AND REDUCE CO_2-e EMISSIONS ARE ILLUSTRATED BELOW:



in Auckland and Wellington as the owner and maintainer of the network. In FY19, we enabled 35 million low carbon commuter journeys to be made, significantly reducing inner city congestion. It is estimated that without the Auckland and Wellington passenger rail networks there would be an additional 100,000 car trips on New Zealand roads every day.

In FY19, our carbon footprint (for direct emissions) was 240,068 tonnes of CO_2-e emissions.

We measure our carbon emissions (CO_2-e) on an intensity basis for our rail freight operations, and on an absolute basis for the whole organisation. Our direct carbon emissions from business operations saw a significant reduction in FY17 primarily due to the decreased freight movements resulting from the 2016 Kaikoura earthquake. In FY19, our carbon footprint increased, largely due to the Main North Line re-opening and enabling more freight to be transported. Despite the increase in FY19, we have seen a steady decrease in our Rail Freight Carbon Intensity since FY16, demonstrating that we are improving our fuel performance – emitting less carbon emissions per net tonne of freight transported.

A key aspect of our carbon reduction strategy is our close collaboration with the Energy Efficiency and Conservation Authority (EECA) and the establishment of Energy Management Programme. Through our partnership with EECA, we will have set a short-term target to reduce our energy usage by 73.5 gigawatt hours (GWh) per annum by June 2020. This is a 7 per cent reduction of our total emissions, and so far, we have managed 58 per cent of that target, with all areas of the organisation working hard to meet it.

Our Energy Management Programme sets out a pathway to be net zero carbon by 2050, as well as a 2030 target to reduce our carbon emissions by 30 per cent.

Fuel usage by our trains and ferries makes up the majority (92 per cent) of our carbon footprint and has been the area of greatest focus within our Energy Management Programme. The programme includes a combination of improved asset planning and deployment, new and improved operational procedures, and staff training and technology to help improve fuel efficiency across our fleet.

In 2015, we implemented a Driver Advice System (DAS) on mainline locomotives which has contributed to a 14 per cent reduction in fuel use (17 million litres) to date. DAS compliance in FY19 was 85 per cent and in FY20 we are aiming for 90 per cent compliance to deliver further fuel savings. To achieve this, we will work closely with the system builders to better optimise the software as well as engaging with our people through further training and education.

We have also worked closely with EECA on initiatives to help reduce fuel usage on our Interislander fleet. We have reduced our fuel burn per sailing by 2.8 per cent compared with base year FY16. Part of the reduction came from propeller caps fitted onto both propellers of Aratere to reduce water resistance, leading to improved sailing efficiency and reduced fuel usage. The caps were accompanied by an upgraded fuel monitoring system that enables more accurate collection of ship performance data.

We aim to build on our natural advantage as a low emissions transport option and continue with initiatives to further reduce energy usage across our rail and shipping operations. Modal shift of freight from road to rail will achieve safer and more sustainable transport for New Zealand.

Technology will play a critical role in helping to reduce emissions from the transport sector into the future. Studies in alternative fuels for rail and shipping continue to grow globally and we will consider investigating these options as and when they become safe, reliable and cost-effective.

WASTE MANAGEMENT

We operate a wide range of facilities and services throughout New Zealand and generate a variety of industrial and passenger waste from our operations. This year, with support from the Waste Management Fund administered by the Ministry for the Environment, we will be increasing the focus on waste management. We will start with a review of current practices to identify waste minimisation opportunities across our operations, with an emphasis on circular economy options to help divert waste from landfill.

Our Great Journeys of New Zealand tourism service signed the TIA Tourism Sustainability Commitment in 2017, with one of the goals waste reduction and management programmes. As an initial step, we removed plastic straws from the Interislander fleet in 2017 but acknowledges there are more improvements to be made.

As rail is a material-intensive industry, we have developed a recycling programme for used rail infrastructure materials which still have life left in them. In 2019, the programme saw sleepers and rail redistributed throughout the network for maintenance and repair works.

PROCUREMENT

We are committed to behaving responsibly, ethically and sustainably. We have a Supplier Code of Ethics to help encourage our suppliers to review their sustainability approach with the aim of making tangible improvements that will benefit their business, and ours, as well as society and the environment. The Code outlines the minimum expectations we have of our suppliers around ethical, labour, safety, health and environment practices. Sustainability evaluation criteria are now also included in some of our tender processes.

UNITED NATIONS' SUSTAINABLE DEVELOPMENT GOALS

The United Nations' Sustainable Development Goals (SDGs) are a global call for united action by Government, private sector, society and citizens to address the world's most urgent challenges. These challenges include to end poverty, protect the planet, and to ensure that all people enjoy peace and prosperity.

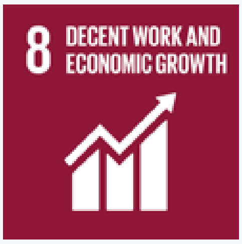
As a key enabler of social, environmental and economic growth in New Zealand, we recognise the role we can play in advancing the goals and to help build a more resilient and inclusive world. With 'Care and Protect' as one of our core values, looking after ourselves, each other, and the environment is central to everything we do.

In 2018, we undertook an assessment of the SDGs, with participants who represented a broad cross-section of business functions at KiwiRail, to identify where the business can have the most impact over the short to medium term. The three goals that were identified to focus on through our organisational strategy and business activities are:

- SDG 8 Decent Work and Economic Growth
- SDG 9 Industry, Innovation and Infrastructure
- SDG 13 Climate Action

Since identifying these goals, we have built a sustainability strategy that aligns with our SDGs and covers the three core pillars of Environment, Society and Economy. Within the strategy, we have set out the key activities over the short to medium term to help us progress the goals and their associated targets.

We will measure our outputs in line with the goals. Several programmes of work are already underway which will assist our ambition. Here we have listed some of the specific targets and how our work programmes can influence the outcomes they seek.

Sustainable Development Goal	KiwiRail's Response	KiwiRail's Work Programme
8 – Decent Work and Economic Growth **Target 8.9 –** By 2030, devise and implement policies to promote sustainable tourism that creates jobs and promotes local culture and products. 	While KiwiRail has several diversity and inclusiveness programmes which contribute to decent work for New Zealanders, our primary contribution to this goal is through sustainable tourism. Our tourism services help drive regional growth, delivering a million tourists to some of our less visited regions each year. KiwiRail is also a signatory to the New Zealand Tourism Sustainability Commitment.	**The Great Journeys of New Zealand** With visitor numbers to New Zealand expected to increase 37 per cent by 2024, KiwiRail will be increasing tourist capacity, with funding from the PGF, for the benefit of regional communities. The work programme will include: running our Coastal Pacific service year-round and with an additional carriage; adding two more carriages onto our TranzAlpine service; and upgrading several train stations to accommodate longer trains at platforms. Increasing the capacity of these services is expected to bring about several benefits, including: • Increased spending - spending is expected to double on the West Coast to $80.3 million by 2027; and more than double across Marlborough and Kaikoura to $82.5 million. • More employment opportunities - approximately 700 jobs across the West Coast, Marlborough and Kaikoura regions. • Greater promotion of local culture and products – KiwiRail is partnering with local tourism providers (existing and new), to develop tourism packages, and to encourage tourists to visit for longer. • Reduced emissions and congestion – that will come from tourists taking our train services, rather than driving. **Interislander** KiwiRail has begun the procurement process for two new ships to replace the current fleet which is nearing the end of its lifespan. The new ships will optimise the capacity of the Interislander, increasing the resilience of the service and enabling KiwiRail to better support visitor growth.

Sustainable Development Goal	KiwiRail's Response	KiwiRail's Work Programme
9 – Industry, Innovation and Infrastructure **Target 9.1** – Develop quality, reliable, sustainable and resilient infrastructure, including regional and trans-border infrastructure, to support economic development and human wellbeing, with a focus on affordable and equitable access for all. 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	KiwiRail is committed to a resilient and integrated transport system for New Zealand and the contribution this makes towards a sustainable future. KiwiRail enables the significant growth in commuters on rail in our biggest cities and is working closely with Government on new connections for freight and people in the regions.	**Napier to Wairoa line** In June 2019 with support from the Government's PGF, KiwiRail completed the reinstatement of the Napier to Wairoa line which will service the growing forestry industry in the region. The line will ease pressure of logging trucks on Hawke's Bay roads, with an estimated removal of 5,000 truck journeys a year initially, rising to more than 15,000 journeys as our services increase. Carbon emissions from trucks will also be reduced because of shifting logging from road to rail. **Hamilton to Auckland passenger service** KiwiRail's daily commuter service between Hamilton and Auckland is expected to carry its first passengers in 2020. The service, operating twice daily initially, will increase access to rail for communities along the route and will provide them with a reliable and low carbon form of transport option to travel between Hamilton and Auckland. **Main North Line rebuild** Following the Kaikoura earthquake in 2016, KiwiRail has worked to rebuild transport connections in the South Island. Daytime freight services and passenger services (Coastal Pacific) are now operating as normal. All works are expected to be completed by the end of 2020. **Third Main Line** KiwiRail plans to build a third main line in South Auckland (between Wiri and Westfield). The additional track will run alongside one of the busiest railway sections in the country, which is used by two passenger lines and a significant volume of KiwiRail's freight movers in Auckland. This investment will reduce scheduling conflicts between passenger and freight services, allow more services to be scheduled and make journey times more reliable. The investment will also increase capacity on the rail network, supporting the region's businesses and regional employment and enabling significant growth in public transport patronage. Greater patronage of public transport will reduce road congestion, road maintenance costs and carbon emissions and make roads safer.
13 – Climate Action **Target 13.2** – Integrate climate change measures into national policies, strategies and planning. 13 CLIMATE ACTION	KiwiRail's strategic focus is on future emissions reduction across the transport sector. Our Energy Management Programme provides tangible evidence of our commitment to climate action.	**Modal shift** One of the main areas where KiwiRail can support a reduction in green house gases is through an increase in modal shift of freight from road to rail, providing a safer and more sustainable transport option for New Zealand. KiwiRail helps its freight customers quantify the environmental benefits of choosing rail over road through a 'Steel Wheels' report that includes information on carbon emissions and fuel savings, and the reduced heavy vehicle impact their movements on rail has made. This information supports customers in telling their own sustainability story on how they're taking action to address climate change by choosing rail. **Energy Management Programme** KiwiRail continues to implement initiatives to help reduce the carbon intensity of its rail and maritime operations through its partnership with EECA. DAS optimisation, improved asset planning, new and improved operational procedures, and staff training and technology will also help bring about further fuel savings in the short to medium term. **Glidepath to Electrification** While rail is a less carbon intensive form of transport compared with road, some of our services still use diesel and emit carbon. KiwiRail continues to explore new low carbon fuel options such as hydrogen and biofuel, as well as investigating extending the electrification of Auckland's rail network.

STRATEGIC OUTLOOK

NEW ZEALAND'S OUTLOOK

As a commercially focused SOE serving the freight and tourism markets, the outlook for KiwiRail is linked with that of New Zealand and global economies. New Zealand's economy continues to grow at a healthy pace and looks set to continue with Real GDP predicted to grow by 3.0 per cent over the 2019/20 period, supported by an increase in government spending and stronger investment. Beyond this period, GDP growth is predicted to gradually ease as the stimulus from higher government spending fades and population growth declines.

Looking forward, the risk of a downturn in global growth has increased. Decreases in global trade growth partly due to increased trade tensions elevate the risk of significant adverse impacts on the real economy from uncertainty, reduced investment, and lower exports increases. If tensions are resolved, however, global trade may see an uptick that supports a continuation of the global economic expansion seen in recent years.

Treasury predicts GDP growth will average 2.6 per cent per year across the five years to June 2023.

Freight tonnage across all commodity types is projected to increase by 55 per cent, from 237 million tonnes in 2012/13 to 366 million tonnes in 2042/43. When split out across regional New Zealand, nearly all regions are expected to increase levels of freight tonnage other than the West Coast, which will experience a decline largely due to reductions in coal movements. New Zealand's busiest corridor, "the Golden Triangle" (Auckland/Waikato/Bay of Plenty), is projected to increase its share of all freight movements to 45 per cent by 2043. We are extremely well placed to play an even greater role within the freight sector, particularly as we operate nationwide.

Across our freight business, volatility within commodity prices is a strong influence on key revenue streams particularly in the areas of forestry, dairy and coal.

- Global coal consumption increased across 2018 with Indian and Chinese consumption levels leading the way, after three years of decline. Natural gas consumption also rose by 5.3%.
- Forestry continues progress towards peak "Wall of Wood", which is expected to be reached in the next 15-20 years. KiwiRail continues to play a valued role in keeping trucks off the road in many parts of regional New Zealand.
- IMEX remains stable in the short to medium term with supply chains slowly adapting to larger container ships and fewer port calls. KiwiRail ensures high levels of connectivity within the IMEX sector across the country.
- Tourism has seen steady growth in international passenger movements to New Zealand which is now softening and is expected to settle around 2.5 per cent a year with strong domestic demand underpinning growth in certain sectors. Further investment in tourism infrastructure will enable the country to meet future demand.

FOCUS ON SAFETY / ZERO HARM

We aspire to be the leading health and safety (Zero Harm) organisation in New Zealand in practice and performance.

Following four years of steady injury reduction and safety improvements, a step-change is now needed to fulfil the ambition of being the leading organisation in New Zealand. To achieve this, our short-term focus is to provide consistent risk-based health and safety standards and focus on building a stronger safety culture.

New initiatives include:

- Safety culture survey to delve deeply into safety attitudes
- Safety belief campaign including introduction of "switch on" workshops for hearts and minds
- Elevating Health & Safety Action Teams to bring issues and solutions to the business
- New Safety, Health and Environment management system for clear accountability and responsibility
- Mental health and fatigue as new areas of focus

NET ZERO CARBON

New climate change legislation lays out the pathway for New Zealand to reduce gross emissions of biogenic methane by between 24 to 47 per cent below 2017 levels and reduce net emissions of all other greenhouse gases to zero by 2050. Rail has a natural advantage as an energy efficient and low emissions mode of transport, with 66 per cent fewer emissions than heavy road freight transport per tonne of freight carried, giving rail an important role to play in helping New Zealand reach its emission reduction targets.

We will be affected by the new legislation in two ways. As a large transport infrastructure owner that is vulnerable to the impacts of climate change, we are likely to have a role in the national climate change adaptation plan and be affected by its recommendations. In addition, future increases in the price of carbon are likely to impact the price of fuel, which will impact operators across the whole transport industry. While rising fuel prices may cause a general increase in transport costs, we expect the lower fuel usage per net tonne-kilometre of rail transport will encourage some modal shift towards rail by lowering costs relative to road transport.

We are looking to move beyond our natural advantage and become a sustainability leader. We have joined the Sustainable Business Council, and aspire to be net zero carbon by 2050, supporting the achievement of New Zealand's zero carbon goals. This will require a step change in our environmental management.

We are developing our own strategy to make large reductions in our emissions across the business and, where necessary, make up for any shortfalls through forestry planting. In addition, we aim to meet our 73.5 gigawatt hours (GWh) energy saving target by 2020 (set by EECA), and are working towards achieving a 30 per cent reduction in carbon emissions by 2030.

In FY19 we commenced a waste audit across key areas of the business to reduce waste. The audit will seek to establish a baseline level of waste and provide recommendations for improvements.

GROWING RAIL

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

Our large investment programme in place for new rolling stock should see even greater levels of service and reliability, improving customer offerings in the short to medium term. Much of this investment addresses the legacy of underinvestment that had led to a 'managed decline' of rail's service quality.

Transitioning our Interislander ferry fleet to two newer, larger, rail-enabled ferries is a priority for us to provide a strategic response to growing passenger and freight markets across the Cook Strait. Recently, a request for tender was released by Interislander for the procurement of these ships.

Over the next eight years, 1,000 people currently working for us will reach retirement age. We are working hard to recruit now to ensure we have the skills and talent required for the growth ahead. We have committed to growing our cadet, apprentice and graduate programmes, developing rail talent, and growing jobs in the regions. Last year our Graduate programme attracted more than 600 applicants for just six places.

INVESTMENT IN RAIL

The development of a long-term funding mechanism is underway. The current funding mechanism allocates funding to rail via the Budget but funds roads through the National Land Transport Programme. Road projects are assessed using a broad range of external benefits while rail investments are made on purely economic grounds. This means many of the benefits of rail, including emissions savings are not accounted for, with the result that the optimal mix of road versus rail in achieving transport outcomes cannot be assessed. Assessing rail and road on an equal footing will help create an overall more efficient transport system.

DIGITAL CONNECTIVITY / DIGITAL SERVICES

Digitalisation is continuing to have a large impact on the transport industry. The industry continues to be disrupted by new technologies which enable faster delivery of goods with more accurate point-to-point tracking of freight. Blockchain technology has begun to penetrate the industry, with companies utilising the technology to track goods through different suppliers in the supply chain.

We are currently working on enabling 'door to door' visibility and real-time tracking of freight, and on streamlining billing systems and processes.

Key to our customer success is a digital transformation of our processes, customer connections and information delivery. Over the next three years we will invest in mobility systems, smart assets and data analytics, providing better ways to connect with our customers from booking to billing.

INCREASED COMMUTER DEMAND

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

THE KIWIRAIL BOARD

Brian Corban

Bob Major

John Leuchars

Paul Harper

John Dennehy

Sue McCormack

Hazel Armstrong

Noel Coom

Brian Corban
Chair: Appointed August 2019.
Term of office: Director since July 2018.

Brian is an Auckland-based company director and lawyer. His experience includes Chair of Genesis Energy for 10 years, Chair of Radio New Zealand Ltd, and the Foundation Chair of Television New Zealand Ltd. He has previously served as Deputy Chair of New Zealand Railways Corporation/KiwiRail in 2008. He is also Chair of the Melanesian Trust Board, a Board member of Auckland War Memorial Museum, a director of Ngatarawa Wines and a number of private companies and a trustee of various community trusts. He is a former Chair of Auckland City Mission and member of the Waitangi Tribunal.

Committee membership: Member of the Risk, Assurance and Audit, Health, Safety, and Environment and Insurance Claim Committees.

Bob Major
Term of office: Director since May 2017.

Bob brings valuable governance experience to the Board. He has spent many years working in the dairy industry, including Fonterra where he was a member of the Senior Leadership Team, the New Zealand Dairy Board and the New Zealand Dairy Research Institute. He is a current director of Comvita, BioVittoria Ltd and Chair of Gibb Holdings (Nelson) Ltd. He is a former Chair of Mud House Wines and director of a number of companies including Sealord Group, Westland Milk Products and Barker Fruit Processors.

Committee membership: Chair of the Governance and Remuneration Committee. Member of the Rolling Stock Committee.

John Leuchars
Term of office: Director since November 2012.

John is a professional company director and civil engineer. He brings significant experience in senior management and governance of international consulting engineering companies. John has experience as a Board member of professional institutions, private and public companies and not-for-profit organisations. John is a Board member of the Wellington Gateway Project (Transmission Gully Motorway). He is a member of the Auckland City Council Value for Money review panel. He was a member of the Board of Genesis Energy until April 2018, and is a Fellow of the Institute of Professional Engineers New Zealand.

Committee membership: Chair of both the Health, Safety, and Environment and Investment & Asset Management Committees. Member of the Risk, Assurance and Audit, iReX, and Insurance Claim Committees.

Paul Harper
Term of office: Director since May 2016.

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

Committee membership: Chair of the iReX Committee. Member of the Governance and Remuneration, Health, Safety and Environment, and Investment & Asset Management Committees.

John Dennehy
Term of office: Director since May 2017.

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

Committee membership: Chair of both the Risk, Assurance and Audit, and Rolling Stock Committees.

Sue McCormack
Term of office: Director since May 2017.

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

Committee membership: Chair of the Insurance Claim Committee. Member of both the Governance and Remuneration, and Health, Safety, and Environment Committees.

Hazel Armstrong
Term of office: Director since July 2019.

Hazel is a lawyer specialising in ACC, health and safety, employment law and professional ethics. She sits on the New Zealand Law Society ACC Committee. She is a former Deputy Chair of the CAA and director of ACC. She also has undertaken inquiries on behalf of government and organisations and in 2014 she was part of a three-person inquiry into safety in the forestry sector.

Noel Coom
Term of office: Director since July 2019.

Noel has more than 45 years' diverse experience in the international shipping and rail sectors having held senior management positions in New Zealand, the United States and in Australia. Noel was formerly New Zealand Chair of the International Container Lines Committee (ICLC). He is currently an independent director on the Board of international freight forwarder Mondiale Freight Services.

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

THE KIWIRAIL EXECUTIVE TEAM


Greg Miller


Todd Moyle


David Gordon


Rod Lay


Katie McMahon


Andrew Norton


Ellie Martel


Stephanie Campbell


Usman Pervaiz


Jonathon Earl


Garry Collings

Greg Miller
Group Chief Executive

Greg was appointed Chair of both the KiwiRail Board and the New Zealand Railways Corporation Board in November 2018, following a 32-year career in supply chain logistics. In May 2019, he was appointed Group Chief Executive. While Managing Director and Chief Executive of Toll NZ he led large global supply chain strategies across all transport modes including rail, road, ports, sea and air freight services. Greg has a successful history of acquisitions mergers and transformational work across many businesses internationally. A leader in supply chain infrastructure and capital projects for over two decades. He was previously a director and managing director of Tranzlink International and a senior executive of the Mainfreight Group. Greg fostered the Maori transport network Te Kupenga Mahi and has served as the Kahui Ariki representative of the Maori King and Election Chair of the Waikato Tainui Tribal Parliament. He is a Fellow of the Chartered Institute of Transport and Logistics. Greg is of Nga Puhi/Ngai Te Rangi/Rongowhakaata descent.

Todd Moyle
Chief Operating Officer / Deputy Chief Executive

Todd is KiwiRail's Chief Operations Officer, overseeing all operational parts of the business including the Interislander, Rolling Stock, Network Infrastructure and Train Operations. Prior to that he was Group General Manager of Network Services, leading KiwiRail's 'below rail' network of track, bridges and tunnels along with our engineering function. Todd has been with KiwiRail since 2007 and has more than 15 years in the construction and operation of rail networks across New Zealand and the United Kingdom. Todd previously worked with London Underground and held roles across the pulp and paper sector in New Zealand.

David Gordon
Chief Operating Officer – Capital Projects and Asset Development

David oversees KiwiRail's strategic capital projects and property portfolio and leads our collaboration with government, agencies and local government on transport policy and investment issues. David joined KiwiRail in 2007 working on the Wellington Regional Rail Programme as project director. He was later GGM Asset Management and Investment, and GM Network Performance.

Rod Lay
Chief Financial Officer

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

Katie McMahon
Group General Manager Zero Harm

Katie is responsible for leading KiwiRail's health and safety strategy programme. Katie joined KiwiRail in 2017, and has experience in leading risk management and health and safety practices for large rail businesses. Katie began her career in the Australian Army and prior to joining KiwiRail, was Manager Safety, Health and Environment for Aurizon's Queensland operations.

Andrew Norton
Group General Manager Human Resources

Andrew is a highly experienced Human Resources leader with a track record in both large public and commercial organisations. Before joining KiwiRail in July 2014 he held senior and executive roles with Downer in Australia, all three District Health Boards in Auckland and the Public Service Association (PSA). Andrew brings a combination of senior executive level HR capability, an in-depth understanding of industrial relations, strong engagement skills with front line engineering and customer service teams and experience in developing executive leadership in large organisations.

Ellie Martel
Group General Manager Communications

Ellie has led our communications function including Government relations, media, social media, community engagement, design and internal relations since June 2019. Previously, she has held a variety of communications management positions in New Zealand and Australia, in construction, infrastructure, energy, health, financial and consumer sectors both in-house and within agencies. She entered communications from a decade in newspapers and television in New Zealand, Australia and the UK, including as a business and political editor.

Stephanie Campbell
Group General Manager Property

Stephanie is responsible for the leadership, strategic direction and management of KiwiRail Property. She has been involved in property, investment, development and construction in New Zealand for more than 20 years, starting with KiwiRail Property in 2014, and taking the Group General Manager Property role in May 2019. Stephanie has previously undertaken programme and project management for the Department of Corrections and New Zealand Fire. She has also undertaken various roles with a focus on Crown land management and development.

Usman Pervaiz
Group General Manager Innovation and Strategic Growth

Usman is overseeing innovation and strategic growth functions for KiwiRail group. Usman has been in senior commercial delivery, innovation, partnerships and corporate strategy roles since 2008. Usman is a professional engineer with more than 18 years of experience. He has extensive business experience internationally across multiple sectors including logistics and supply chain, energy, construction and engineering design and consultancy. He has previously worked with EnergyAustralia, Downer, Jacobs and Parsons Brinckerhoff, and General Manager Strategy and Corporate Development at KiwiRail. He returned to KiwiRail in July 2019.

Jonathon Earl
Group General Counsel

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

Garry Collings
Group Chief Information Officer

Garry oversees 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, who started at KiwiRail in July 2019, has 23 years' 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.

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

The Board establishes objectives and sets strategies to achieve those objectives. The Board, in the context of the approved policy, risk and compliance framework within which the Group operates, monitors the performance of management and the Group against those strategies. The Board has delegated the day–to–day management of the Group to the Group Chief Executive.

GROUP CHIEF EXECUTIVE

Appointing the Group Chief Executive is one of the most important roles of the Board. In May 2019, the Board announced Greg Miller as Group Chief Executive, replacing Peter Reidy after more than four years in the role.

The Board undertook a thorough international search process and concluded that Mr Miller had the best set of skills to offer with global experience in supply chain, a history with rail, domestic transport expertise, and experience leading companies through significant growth and transformation.

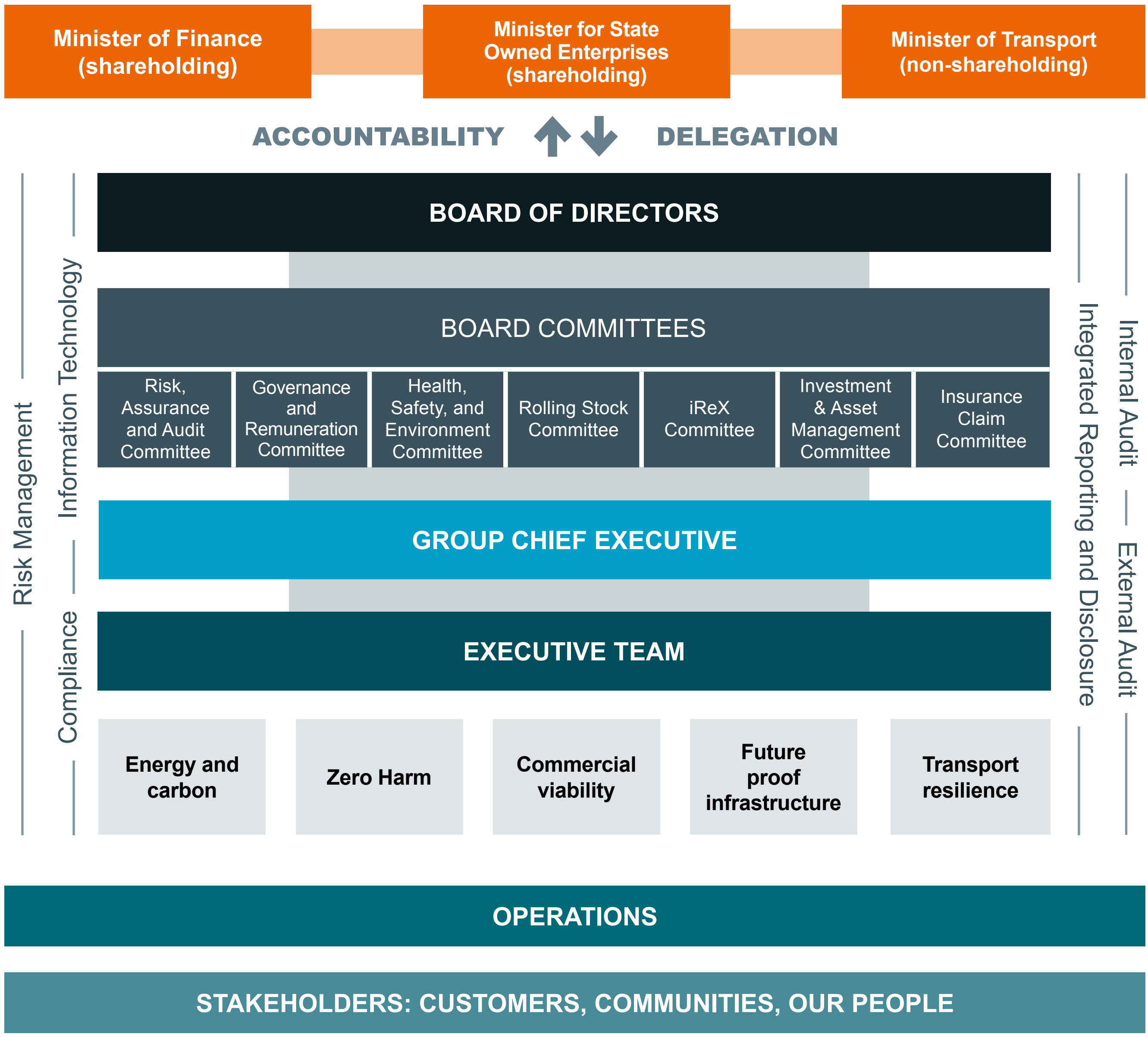
During the nine-month period between Mr Reidy's departure and Mr Miller's appointment as Group Chief Executive, KiwiRail's Chief Operating Officer, Todd Moyle, served as Acting Chief Executive.

OUR COMMERCIAL MANDATE

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

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

Governance overview:



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 2019 the Group comprised KiwiRail Holdings Limited and its subsidiaries as detailed in the below diagram:

KiwiRail Holdings Limited

100%

KiwiRail Limited

100%

Clifford Bay Limited (non–trading)

GOVERNANCE FUNCTIONS

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

RISK, ASSURANCE AND AUDIT COMMITTEE (RAAC)	Four meetings per year	John Dennehy (Committee Chair) Brian Corban John Leuchars	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)	Four meetings per year	Bob Major (Committee Chair) Sue McCormack Paul Harper	Assists the Board in establishing remuneration strategies and policies for the Chief Executive and his direct reports that support an increase in productivity and the retention of staff. Also assists the Chairperson and the Board to consider performance and skill set of the Board.
HEALTH, SAFETY, AND ENVIRONMENT COMMITTEE (HSEC)	Four meetings per year	John Leuchars (Committee Chair) Brian Corban Sue McCormack Paul Harper	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.
ROLLING STOCK COMMITTEE	Between four and ten meetings per year, depending on project stage gates	John Dennehy (Committee Chair) Bob Major	Assists Board decision-making and support managements' delivery for the Rolling Stock programme (locomotives, wagons, and carriages) and investment in related maintenance facilities.

IREX COMMITTEE	Between four and ten meetings per year, depending on project stage gates	Paul Harper (Committee Chair) John Leuchars	Assists Board decision-making and supports management's delivery for the iReX programme which covers procurement of two new ships; procurement of new terminals and wharfage in Wellington and Picton respectively; and the integration of the new ships and terminals into KiwiRail's business.
INVESTMENT & ASSET MANAGEMENT COMMITTEE (IAMC)	Four meetings per year	John Leuchars (Committee Chair) Paul Harper	Assists Board decision-making by reporting recommendations to the Board relating to prioritisation of capital expenditure and delivery of strategic investment programmes.
INSURANCE CLAIM COMMITTEE (ICC)	Four meetings per year	Sue McCormack (Committee Chair) Brian Corban John Leuchars	As a result of the magnitude 7.8 (Mw) Kaikoura Earthquake on 14 November 2016, KiwiRail has a material insurance claim in respect of property damage and consequential losses suffered. The role of the Committee is to assist the Board in discharging its responsibility to exercise due care and diligence in the governance and oversight of KiwiRail's insurance claim, with a view to obtaining what is properly payable to KiwiRail under its insurance policies.

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.

APPROACH TO RISK MANAGEMENT

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

At a strategic level, effective governance of risk is achieved through the Risk, Assurance and Audit Committee of the Board. At an operational level, a risk champion network is in place, and risk is actively managed and reported through an enterprise risk register.

INSURANCE AND INDEMNITY

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

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

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

DIRECTORS' ATTENDANCE AND REMUNERATION

The following Directors attended Board meetings during the 2019 financial year:

Directors	Board meeting
Brian Corban	10/11
Greg Miller	5/5
John Dennehy	11/11
Paul Harper	10/11
John Leuchars	10/11
Bob Major	10/11
Susan McCormack	10/11
Mike Pohio	8/9
Guy Royal	4/4

Greg Miller commenced as Director and Chair effective 1 November 2018 and retired as Director on 1 May 2019 to take up appointment as Group Chief Executive. Guy Royal's term as Director ended 31 October 2018. Mike Pohio's term as Director ended 30 April 2019. Hazel Armstrong and Noel Coom commenced as Directors 15 July 2019.

Note 21 of the financial statements sets out what fees Directors earned during FY19.

EMPLOYEE REMUNERATION

There were 1,335 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 2019, as set out below

810-820	1
600-610	1
570-580	1
510-520	1
500-510	1
490-500	2
430-440	1
420-430	2
400-410	2
390-400	1
370-380	1
360-370	4
350-360	1
330-340	1
310-320	1
300-310	3
290-300	1
280-290	4
270-280	6
250-260	5
240-250	4
230-240	5
220-230	4
210-220	13
200-210	15
190-200	19
180-190	22
170-180	30
160-170	40
150-160	44
140-150	98
130-140	121
120-130	185
110-120	285
100-110	410

Total employees earning in excess of $100,000	**1,335**
Employees who are included but who are no longer at KiwiRail as at 30 June 2019	**103**
Net total employees earning in excess of $100,000 and employed at KiwiRail as at 30 June 2019	**1,232**

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.

Peter Reidy resigned as Chief Executive effective 22 August 2018. Todd Moyle was Acting Chief Executive from 23 August 2018 to 30 April 2019. Greg Miller commenced as Group Chief Executive 1 May 2019.

KEY PERFORMANCE INDICATORS

KiwiRail Holdings Limited
Statement of Corporate Intent comparisons *

	2019 Actual	2019 Plan
Sustaining a Zero Harm Environment		
Safe Work Conversations	13,633	1 per person/per month (16,000)
Total Recordable Injuries	264	105
SPAD As	15	16
Safe working irregularities	320	203
Derailments – mainline	14	5
Derailments – terminal	85	62
GHG emissions per NTK (gms)	27.02	25.92
Truck avoidance	1.2	1.2
Meeting our financial targets		
Operating Surplus ($m)	26	55-75
Operating Surplus – excluding non-recurring items ($m)	55	55-75
Operating Margin (%)	4	9-12
Operating Margin – excluding non-recurring items (%)	8	9-12
Capital Expenditure – net of grants ($m) **	260	298
Property		
- Weighted Average Lease Term (WALT %)	5	4
- Yield ***	N/A	7
Empowering our people		
Employee Net Promoter Score	24	5
Engaging our customers and stakeholders		
Revenue ($m)	683	640-660
Freight trading revenue growth – excluding fuel cost recovery (%)	12	8-10
GTK (m)	8,497	8,295
Revenue as a percentage of FTE (%)	19	19
Revenue as a percentage of NTK (%)	16	15
Revenue as a percentage of KM of track (%)	18	18
Passenger revenue growth (%)	7	8
Property revenue growth (%)	4	4

* Refer to Statement of Corporate Intent 2019-2021 for definitions of performance measures
** Excludes South Island MNL rebuild
*** Expected to be in line with target but calculation relies on updated valuation due FY20

KEY PERFORMANCE INDICATORS

KiwiRail Holdings Limited
Statement of Corporate Intent comparisons *

	2019 Actual	2019 Plan
Delivering Operational Performance		
On Time Performance		
- Freight Trains – Premium (%)	85	90
- % Interislander services to advertised sailings (%)	99	99
Operating costs		
- Operating costs as a percentage of revenue (%)	96	88-91
- Operating costs as a percentage of revenue – excluding non-recurring items (%)	92	88-91
- Total staff costs as a percentage of operating costs (%)	52	47
- Total staff costs as a percentage of operating costs – excluding non-recurring items (%)	50	47
- Operational costs as a percentage of NTK (%)	15	14
- Operational costs as a percentage of NTK – excluding non-recurring items (%)	14	14
Network Renewals		
- New Sleepers Laid (000) **	81	81
- New Rail Laid (km) **	20	29
- New Turnouts **	25	30
Availability of all locomotives (%)	95	92
Wagon availability (%)	92	92
Total capital expenditure as a percentage of revenue (%) **	38	46
Total capital expenditure as a percentage of NTK (%) **	6	7
Total capital expenditure as a percentage of KM of track (%) **	7	8
Shareholder Return Measures		
Total Shareholder Return	n/a	n/a
Dividend Yield	0	0
Dividend Pay-out	0	0
Return on Average Equity (%)	(40)	(49)
Profitability/Efficiency Measures		
Return on Average Capital Employed (%)	(31)	(34)
Operating Margin (%)	4	9-12
Leverage/Solvency Measures		
Shareholder's Funds to Total Assets (%)	63	56
Gearing Ratio (net) (%)	15	29
Interest Cover	2.8	4.5
Solvency (current assets/current liabilities)	1.00	1.08

* Refer to Statement of Corporate Intent 2019-2021 for definitions of performance measures
** Excludes South Island MNL rebuild

VOTE TRANSPORT

Vote Transport: Non-Departmental Capital and Other Expenditure

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

Rail – Public Policy Projects (M72)
This appropriation is limited to public policy rail initiatives.

	2019 Actual	2019 Budget
Amount of Appropriation ($000)	3,270	3,270
Performance Measure:		
The public policy projects are carried out in line with the programme	100%	100%

Rail – Railway Safety (M72)

This appropriation is limited to public safety works.

	2019 Actual	2019 Budget
Amount of Appropriation ($000)	500	500
Performance Measure:		
A safer railway system	Achieved	Achieved

Rail – KiwiRail Equity Injection (M72)

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

Supplementary: This appropriation increased by $10 million to $28.2 million for 2018/19.

	2019 Actual	2019 Budget	2019 Supplementary	2019 Final Budget
Amount of Appropriation ($000)	3,839	18,200	10,000	28,200

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.

	2019 Actual	2019 Budget
Amount of Appropriation ($000)	230,000	230,000
Performance Measure:		
Capital is invested in the New Zealand rail system as approved by shareholding Ministers	100%	100%

Rail – KiwiRail Holdings Limited (M72)

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

	2019 Actual	2019 Budget
Amount of Appropriation ($000)	163,500	163,500
Performance Measure:		
All documentation and transactional requirements are met	100%	100%

Rail – Wellington Metro Rail Network Upgrade (M72)

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

Supplementary: This appropriation decreased by $7.1 million to $42.9 million for 2018/19

	2019 Actual	2019 Budget	2019 Supplementary	2019 Final Budget
Amount of Appropriation ($000)	36,216	50,000	$(7,104)	42,896
Performance Measure:				
Work is carried out per the agreed outcomes	84% completed with remainder carried forward to 2019/20	-	-	100%

Rail – Maintaining an Electric Locomotive Fleet (M72)
This appropriation is limited to maintaining the operation of the existing electric locomotive fleet.

	2019 Actual	2019 Budget	2019 Supplementary	2019 Final Budget
Amount of Appropriation ($000)	nil	nil	8,500	8,500
Performance Measure:				
Work is carried out per the agreed outcomes	Carried forward to 2019/20	-	-	100%

Reinstatement of South Island Main North Line (M72)
This appropriation is limited to the reinstatement of the earthquake-damaged Picton to Christchurch rail corridor.
Supplementary: This appropriation increased by $60 million to $205 million for 2018/19.

	2019 Actual	2019 Budget	2019 Supplementary	2019 Final Budget
Amount of Appropriation ($000)	205,000	145,000	60,000	205,000
Performance Measure:				
Work is carried out per the agreed outcomes	41% completed with remainder of work to be completed in 2019/20	-	-	100%

Tuawhenua Provincial Growth Fund – Transport Projects (M72)

Regional Projects and Capability

This is category is limited to supporting regional development through transport-related projects, capability building, and feasibility studies for potential transport-related projects.

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 productivity potential in the regions.

	2019 Actual	2019 Budget	2019 Supplementary	2019 Final Budget
Amount of Appropriation ($000)				
Regional projects and capability	nil	nil	1,000	1,000
Rail projects	nil	nil	7,400	7,400
Performance Measure:				
Work is carried out per the agreed outcomes	Carried forward to 2019/20	-	-	100%

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

	Note	GROUP 2019	GROUP 2018
		$m	$m
Operating revenues	2	682.9	615.8
Operating expenses	3	(657.2)	(567.3)
Operating surplus		**25.7**	**48.5**
Capital grants	4	93.6	39.8
Depreciation and amortisation expenses	8(a), 8(b)	(103.9)	(86.2)
Foreign exchange and commodity (losses)/gains	5	(2.2)	9.3
Impairment	8(c)	(249.3)	(27.0)
Impairment – Kaikoura earthquake	8(c)	(131.8)	(221.6)
Insurance proceeds		46.4	8.0
Movement in value of investment properties	13	2.5	4.0
Net finance expenses	6	(4.6)	(7.9)
Other costs – Kaikoura earthquake		(1.1)	(2.8)
Net deficit before taxation		**(324.7)**	**(235.9)**
Income tax expense	7	-	-
Net deficit after taxation		**(324.7)**	**(235.9)**
Other comprehensive income/(loss)			
Items that cannot be reclassified into net surplus/deficit:			
Building revaluation	8(c)	(0.2)	-
Total comprehensive loss		**(324.9)**	**(235.9)**

The accompanying notes form part of these financial statements.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	Note	GROUP 2019	GROUP 2018
		$m	$m
Current assets			
Cash and cash equivalents	9	114.8	87.0
Trade and other receivables	10	222.0	91.0
Inventories	11	75.8	71.6
Financial assets	12	3.4	8.4
		416.0	**258.0**
Non-current assets			
Property, plant and equipment	8(a)	894.3	898.2
Investment property	13	85.0	82.8
Intangible assets	8(b)	0.9	0.3
Financial assets	12	-	1.0
Trade and other receivables	10	0.3	0.4
		980.5	**982.7**
Total assets		**1,396.5**	**1,240.7**
Current liabilities			
Trade and other liabilities	15	127.8	103.8
Employee entitlements	16	95.5	58.5
Financial liabilities	12	187.1	181.3
Income taxes payable	7	-	-
Provisions	17	4.8	6.0
		415.2	**349.6**
Non-current liabilities			
Employee entitlements	16	45.8	39.3
Financial liabilities	12	62.3	86.6
Provisions	17	-	6.0
		108.1	**131.9**
Total liabilities		**523.3**	**481.5**
Equity			
Share capital	22	1,668.8	1,233.8
Retained earnings		(815.7)	(494.9)
Asset revaluation reserve		20.1	20.3
		873.2	**759.2**
Total liabilities and equity		**1,396.5**	**1,240.7**

Bob Major, Acting Chair
21 August 2019

John Dennehy, Director
21 August 2019

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 2019

GROUP	Note	Share Capital	Retained Earnings	Asset Revaluation Reserve	Total
		$m	$m	$m	$m
As at 30 June 2017		**833.8**	**(264.0)**	**22.3**	**592.1**
Net deficit for the period		-	(235.9)	-	(235.9)
Other comprehensive income/(loss)					
Revaluation reserve of transferred buildings		-	2.0	(2.0)	-
Total comprehensive (loss)		**-**	**(233.9)**	**(2.0)**	**(235.9)**
Transactions with owners					
Capital Investment	22	400.0	-	-	400.0
Crown appropriation - land transactions	18	-	3.0	-	3.0
As at 30 June 2018		**1,233.8**	**(494.9)**	**20.3**	**759.2**
Net deficit for the period		-	(324.7)	-	(324.7)
Other comprehensive income/(loss)					
Buildings revaluation reserve		-	-	(0.2)	(0.2)
Total comprehensive (loss)		**-**	**(324.7)**	**(0.2)**	**(324.9)**
Transactions with owners					
Capital Investment	22	435.0	-	-	435.0
Crown appropriation - land transactions	18	-	3.9	-	3.9
As at 30 June 2019		**1,668.8**	**(815.7)**	**20.1**	**873.2**

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 2019

	Note	GROUP 2019	GROUP 2018
		$m	$m
Cash flows from operating activities			
Receipts from customers		687.0	620.0
Interest received		3.4	2.7
Payments to suppliers and employees		(621.2)	(590.9)
Interest expense		(12.6)	(13.1)
Net cash from operating activities	20	**56.6**	**18.7**
Cash flows from investing activities			
Sale of property, plant and equipment		1.1	1.1
Capital grant receipts		89.9	33.7
Insurance proceeds		44.1	29.9
Sale of investment in joint venture		-	2.7
Purchase of property, plant and equipment and investment properties		(455.6)	(491.8)
Purchase of intangibles		(14.1)	(6.7)
Net cash used in investing activities		**(334.6)**	**(431.1)**
Cash flows from financing activities			
Crown capital investment		315.0	430.0
Proceeds from NZRC land sales		2.7	-
Repayment of borrowings		(10.8)	(12.5)
Repayment of finance lease liability		(1.1)	(1.5)
Net cash from financing activities		**305.8**	**416.0**
Net increase in cash and cash equivalents		**27.8**	**3.6**
Cash and cash equivalents at the beginning of the year		87.0	83.4
Cash and cash equivalents at the end of the year	9	**114.8**	**87.0**

The accompanying notes form part of these financial statements.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

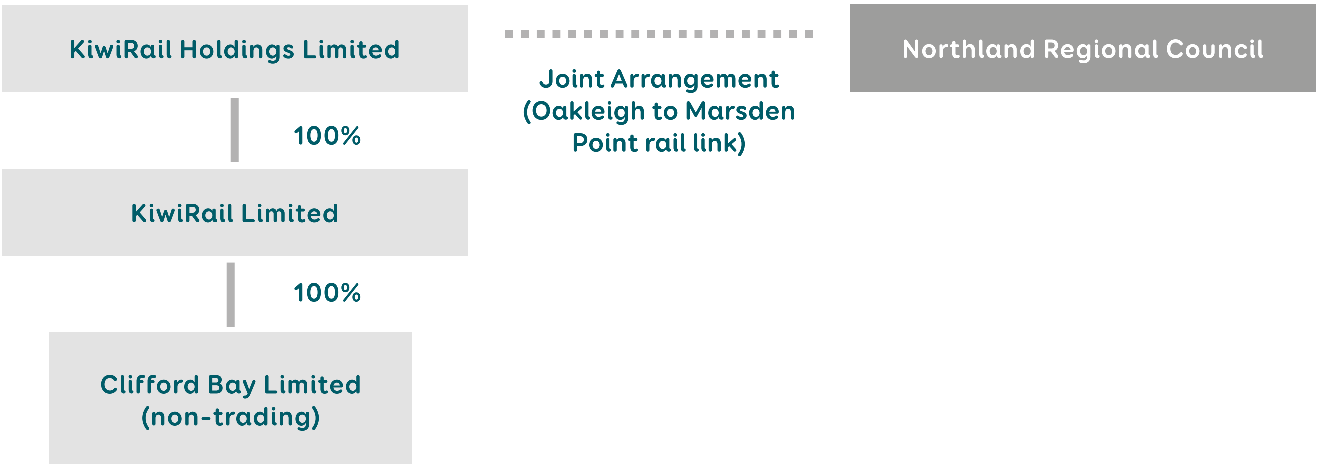
NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

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 required to be carried out by the Group:

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

The financial statements of the Group are for the year ended 30 June 2019 and were authorised for issue by the Board of Directors on 21 August 2019.

(b) Basis of preparation

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") as appropriate for for-profit entities and other applicable Financial Reporting Standards. They comply with the State-Owned Enterprises Act of 1986, the requirements of the Companies Act 1993 and the Financial Reporting Act 2013. The financial statements have been prepared on the basis of historical cost, except for certain non-financial assets and derivative financial instruments, which have been valued at fair value.

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

Unless otherwise specified, all dollar amounts in these financial statements and accompanying notes are stated in New Zealand dollars and all values are expressed in millions of dollars ($m). The functional and presentation currency is New Zealand dollars

(c) Consolidated financial statements

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

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

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

1. GROUP INFORMATION (continued)

(d) Standards and interpretations

The Group applied for the first time certain amendments to the NZ IFRS standards, which are effective for the Group as at 1 July 2018. The nature and the effect of these changes are described below:

- NZ IFRS 9 Financial Instruments has now replaced NZ IAS 39, Financial Instruments: Recognition and Measurement and is mandatory for adoption by the Group commencing on 1 July 2018. The new standard brings together all three aspects of the accounting for financial instruments; classification and measurement, impairment of financial assets and hedge accounting. The information is disclosed in note 10, note 12 and note 23.The classification of financial assets is based on both the use of assets within the business model and the nature of the contractual cash flows. A new impairment model, expected credit loss (ECL) model for impairing financial assets is introduced and replaced NZ IAS 39's incurred loss model. There has been no material impact on the consolidated financial statements.
- Effective 1 July 2018, the Group adopted NZ IFRS 15 and based on the assessment performed by the Group, the impact of the revised standard on the Group's revenue recognition is minimal and no transition adjustments have been made. The majority of revenue earned by the Group is derived from the satisfaction of a single performance obligation for each contract which is the provision of freight and passenger services. Under IFRS 15 revenue is recognised when or as performance obligations are satisfied by transferring control of goods and services to the customer at the transaction price specified in the contract.

NZ IFRS standards and interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2019. Significant changes are outlined below:

- IFRS 16 Leases requires lessees to account for all leases under a single on-balance sheet model. These changes are effective for the Group 1 July 2019. The Group is currently finalising the required reporting changes and has completed the assessment of the estimated impact that initial application of IFRS 16 will have on the consolidated financial statements. The Group will recognise new assets and liabilities for its operating leases. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-to-use assets and interest expenses on lease liabilities.

(e) Significant accounting judgements, estimates and assumptions

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

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

(f) Long-term financial viability

Budget announcements in May 2019 has resulted in substantial investment in KiwiRail with $741m of shareholder equity funding committed over the next two years. This is in addition to the $355m already committed during FY19. We have therefore completed these financial statements on a going concern basis.

(g) Rail review

A Rail Review, led by the Ministry of Transport, is continuing and is working towards:

- defining the purpose of rail in a multi modal transport system, including the outcomes and objectives for rail that the Shareholder seeks; and
- determining the appropriate structure, capital requirements and funding mechanisms of the Group to reflect that purpose, and the outcomes and objectives.

The first in a series of three Cabinet papers was presented in May 2019 and papers two and three will be presented in the first half of FY20.

While the outcome of the review is unknown, decisions that are made following the completion of the review may have an impact on the future carrying value of assets in the Group. The Group currently values its rail network assets on a cash generating basis. Were this to change to a non-cash generating basis using optimised depreciated replacement cost, the carrying value of the rail network assets would increase. Based on current year figures, the assets would increase from $170m (2018: $206m) to $6,264m (2018: $6,202m). In addition to this, the amount by which the Group's rail network assets are annually impaired would reduce and the depreciation charge would increase. The amount impaired in the current year was $381m (2018: $249m) while the depreciation amount would increase by $337m (2018: $292m).

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

2. OPERATING REVENUES

	GROUP 2019	GROUP 2018
	$m	$m
Freight	402.7	350.7
Interislander	137.7	137.0
Infrastructure	60.8	52.5
Property	47.0	45.1
Scenic	30.9	27.8
Other	3.8	2.7
Total operating revenues	**682.9**	**615.8**

Revenue recognition

Revenue is recognised when or as performance obligations are satisfied by transferring control of goods or services to the customer at the transaction price specified in the contract. Control typically transfers to the customer on delivery of the product or as services are provided. The transaction price includes all amounts which the Group expects to be entitled to net of sales taxes and other indirect taxes , expected rebates and discounts. Where applicable, rebates and/or discounts are included within the consideration using an estimation typically based on the most likely method, and are only recognised to the extent that ist is highly probable that a significant reversal will not occur.

3. OPERATING EXPENSES

	GROUP 2019	GROUP 2018
	$m	$m
Salaries and wages	374.9	312.0
Restructuring	0.3	1.9
Defined contribution plan employer contributions	12.1	11.2
Other employee expenses	16.8	8.2
Total staff expenses	**404.1**	**333.3**
Amount capitalised	(63.7)	(55.5)
Total employee expenses	**340.4**	**277.8**
Materials and supplies	113.6	109.2
Fuel and traction electricity	86.4	70.1
Lease and rental costs	37.2	44.6
Incidents and insurance	19.9	15.3
Contractors' expenses	6.9	8.2
Audit fees	0.4	0.4
Impairment of/(recovery from) receivables	0.2	(0.5)
Directors' fees	0.4	0.4
Loss/(gain) on disposal of property, plant and equipment	1.1	(0.9)
Other expenses	50.7	42.7
Total operating expenses	**657.2**	**567.3**

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

4. CAPITAL GRANTS

	GROUP 2019	GROUP 2018
	$m	$m
Capital grants (Ministry of Transport funded)	39.5	15.0
Other capital grants	54.1	24.8
Total capital grant income	**93.6**	**39.8**

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

Where the asset being funded is depreciated over its useful life, the funding is recognised as income on a straight line basis over the same life. Grants received for services provided are recognised when the requirements of the relevant grant agreement are met. Funding received as reimbursements for capital projects are recognised in the same period as the expenditure to which it relates.

5. FOREIGN EXCHANGE AND COMMODITY GAINS AND LOSSES

	GROUP 2019	GROUP 2018
	$m	$m
Net realised foreign exchange and commodity gains/(losses)	2.0	(1.3)
Net change in the fair value of derivatives	(4.2)	10.6
Total foreign exchange and commodity (losses)/gains	**(2.2)**	**9.3**

The table above excludes foreign exchange and commodity gains on fuel related contracts of $1.7m (2018: $1.7m) which are reported within 'Fuel and Traction Electricity Expenses' in note 3.

Foreign currency translation

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

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

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

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

6. NET FINANCE EXPENSES

	GROUP 2019	GROUP 2018
	$m	$m
Finance income		
Interest income on bank deposits	3.6	3.2
	3.6	3.2
Less Finance expenses		
Interest expense on borrowings	(12.5)	(13.7)
Interest expense on finance lease	(0.3)	(0.4)
Net change in fair value of interest rate swaps	4.6	3.0
	(8.2)	(11.1)
Net finance expenses	**(4.6)**	**(7.9)**

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 asset can be utilised.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

7. TAXATION (continued)

Income tax (continued)

(c) Tax benefit/(expense)

	GROUP 2019	GROUP 2018
	$m	**$m**
Components of tax expense		
Current tax expense	-	-
Deferred tax expense	-	-
Tax benefit/(expense)	**-**	**-**
Reconciliation between tax expense and accounting surplus		
Deficit before tax	(324.7)	(235.9)
Tax at 28%	(90.9)	(66.1)
Tax effect of:		
Non-deductible expenditure	(0.3)	6.5
Other temporary differences	91.2	59.6
Tax benefit/(expense)	**-**	**-**

The Group has an unrecognised deferred tax asset of $1,052.6m (2018: $964.9m) arising from deductible temporary differences of $2,398.7m (2018: $2,399.3m) and unused tax losses of $1,360.5m (2018: $1,144.3m).

Imputation credits

The Group has formed an imputation group. The Group has access to $1.2m imputation credits (2018: $1.2m imputation credits).

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

8. NON-FINANCIAL ASSETS

(a) PROPERTY, PLANT AND EQUIPMENT

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

2018	Land	Buildings	Railway Infrastructure	Rolling Stock	Ships	Plant & Equipment	Assets Under Construction	Total
Cost/Valuation	$m	$m	$m	$m	$m	$m	$m	$m
Balance at 1 July 2017	**3.1**	**40.7**	**105.6**	**330.6**	**232.3**	**229.9**	**71.7**	**1,013.9**
Additions	-	5.3	145.4	49.9	3.5	28.5	247.1	479.7
Disposals	-	(0.1)	-	(2.2)	-	(1.2)	-	(3.5)
Category Transfers	-	(1.4)	-	-	-	(0.4)	0.9	(0.9)
Revaluation	-	-	-	-	-	-	-	-
Impairment	-	(0.3)	(137.0)	(39.0)	-	(0.6)	(216.5)	(393.4)
Impairment Reversal	-	-	92.0	(31.0)	-	-	-	61.0
Balance at 30 June 2018	**3.1**	**44.2**	**206.0**	**308.3**	**235.8**	**256.2**	**103.2**	**1,156.8**
Accumulated depreciation								
Balance at 1 July 2017	**-**	**0.2**	**0.5**	**94.1**	**64.3**	**106.7**	**-**	**265.8**
Depreciation expense	-	3.1	7.3	31.6	25.2	18.7	-	85.9
Disposals	-	-	-	(1.6)	-	(1.2)	-	(2.8)
Category Transfers	-	-	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-	-	-
Impairment	-	-	(5.9)	(10.1)	-	(0.1)	-	(16.1)
Impairment Reversal	-	-	(1.9)	(72.3)	-	-	-	(74.2)
Balance at 30 June 2018	**-**	**3.3**	**-**	**41.7**	**89.5**	**124.1**	**-**	**258.6**
Net book value								
At 1 July 2017	**3.1**	**40.5**	**105.1**	**236.5**	**168.0**	**123.2**	**71.7**	**748.1**
At 30 June 2018	**3.1**	**40.9**	**206.0**	**266.6**	**146.3**	**132.1**	**103.2**	**898.2**

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

8. NON-FINANCIAL ASSETS (continued)

(a) PROPERTY, PLANT AND EQUIPMENT (continued)

(i) Recognition and Measurement

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

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

(ii) Revaluation

Buildings are revalued with sufficient regularity to ensure that the carrying amount does not differ materially from fair value. Refer to note 23(b)(ii) for the methodology used in the determination of fair value. Any revaluation increase arising on the revaluation of buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in net surplus or deficit, in which case the increase is credited to net surplus or deficit to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land or buildings is charged as an expense to net surplus or deficit to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

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

	GROUP 2019	GROUP 2018
	$m	$m
Cost	149.7	135.9
Accumulated depreciation	(47.6)	(44.5)
Net carrying value	**102.1**	**91.4**

(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 2019

8. NON-FINANCIAL ASSETS (continued)

(a) PROPERTY, PLANT AND EQUIPMENT (continued)

(iv) Depreciation (continued)

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

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

Land is not depreciated.

Estimation of useful lives of assets

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

(v) Finance leases

Leases in which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Included within plant and equipment are assets acquired by way of a finance lease with a net book value of $12.0m (2018: $12.9m).

Assets held under finance leases are stated at cost less accumulated depreciation and impairment. Finance charges are recognised as finance expenses in net surplus or deficit. Further details of the lease term are provided in note 19(a).

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

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

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

8. NON-FINANCIAL ASSETS (continued)

(b) INTANGIBLE ASSETS

	Note	GROUP 2019	GROUP 2018
		$m	$m
Opening balance		**0.3**	**0.4**
Additions		14.0	6.7
Amortisation		(0.8)	(0.3)
Impairment	8(c)	(12.6)	(6.5)
Balance at 30 June		**0.9**	**0.3**

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

(c) IMPAIRMENT OF NON-FINANCIAL ASSETS

Reconciliation of Impairment Movements to the Net Deficit

	Note	GROUP 2019	GROUP 2018
		$m	$m
Impairment of Cash Generating Units (below)		249.3	27.0
Impairment Kaikoura earthquake (cost of reinstatement)	25	131.8	221.6
Impairment in net deficit		**381.1**	**248.6**

(i) 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 and intangible assets; and
- Interislander - ships and related plant and equipment and intangible assets that relate to the Interislander business unit.

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

The value in use for each CGU is the present value of expected future cash flows. The recoverable amount of a CGU is the higher of its value in use and its fair value less costs to sell. If the carrying amount exceeds the recoverable amount the asset is impaired and the carrying amount is written down to the recoverable amount. For revalued assets the impairment is treated as a revaluation decrease (see note 8(a)(ii) above). For assets not carried at a revalued amount, the total impairment is recognised in net surplus or deficit.

As at 30 June 2019 the Interislander CGU recoverable amount exceeds the carrying amount and no impairment is recognised. As at 30 June 2019 the recoverable amount of the Rail CGU does not exceed the carrying amount and impairment has been recognised. We have determined the recoverable amount of the Rail CGU to be fair value less costs to sell. The impairment is allocated across each asset class within the CGU, including intangible assets.

- In determining the fair value less cost to sell of the railway infrastructure assets and rolling stock within the Rail CGU, the Group adopted a market approach assuming an orderly liquidation of the assets to arrive at a net realisable or scrap value.
- The higher of the scrap value or the net realisable value is adopted to determine the individual asset's fair value less cost to sell.
- Market values such as steel prices and scrap metal rates are taken into account in determining the asset's fair value.
- For assets where scrap value is lower than the cost of removal the assigned fair value less cost to sell was set to nil.
- Where assets have a readily determinable market value they have been impaired to this value. Where a market value is not able to be determined the assets have been impaired to their share of the calculated value in use for the CGU.
- Market values have been provided by an independent valuer for buildings based on the most recent valuation.
- Market values for all railway infrastructure and rolling stock were calculated with reference to external index data as at 30 June 2019.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

8. NON-FINANCIAL ASSETS (continued)

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

(i) Impairment of Cash Generating Units ("CGUs") (continued)

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

GROUP 2019	2019 Carrying amount before revaluation and impairment	Impairment recognised in net surplus or deficit	Movement recognised in Asset Revaluation Reserve	Carrying amount after impairment
	$m	$m	$m	$m
Rail CGU				
Buildings	54.2	(0.3)	(0.2)	53.7
Railway infrastructure	287.6	(117.5)	-	170.1
Rolling stock	339.6	(22.8)	-	316.8
Plant and equipment	118.9	-	-	118.9
Assets under construction	310.5	(227.9)	-	82.6
Total property, plant and equipment	1,110.8	(368.5)	(0.2)	742.1
Intangible assets	12.6	(12.6)	-	-
Total Rail CGU	**1,123.4**	**(381.1)**	**(0.2)**	**742.1**

GROUP 2018	2018 Carrying amount before revaluation and impairment	Impairment recognised in net surplus or deficit	Movement recognised in Asset Revaluation Reserve	Carrying amount after impairment
	$m	$m	$m	$m
Rail CGU				
Buildings	41.2	(0.3)	-	40.9
Railway infrastructure	243.2	(37.2)	-	206.0
Rolling stock	254.2	12.4	-	266.6
Plant and equipment	124.7	(0.5)	-	124.2
Assets under construction	306.3	(216.5)	-	89.8
Total property, plant and equipment	969.6	(242.1)	-	727.5
Intangible assets	6.5	(6.5)	-	-
Total Rail CGU	**976.1**	**(248.6)**	**-**	**727.5**

9. CASH AND CASH EQUIVALENTS

	GROUP 2019	GROUP 2018
	$m	$m
Current accounts and call deposits	114.8	87.0
	114.8	**87.0**

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

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

10. TRADE AND OTHER RECEIVABLES

	Note	GROUP 2019	GROUP 2018
		$m	$m
Trade receivables		58.7	56.4
GST receivable	15	-	2.3
Accrued and other receivables:			
Prepayments		15.0	12.4
Related party receivables		122.5	3.5
Other		26.7	17.2
Gross receivables		222.9	91.8
Less provision for impairment		(0.6)	(0.4)
		222.3	**91.4**
Current assets		222.0	91.0
Non-current assets		0.3	0.4
		222.3	**91.4**

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

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

Impairment

The ECL model for impairing financial assets has been introduced and has replaced the old incurred loss model under IFRS 9. ECL model is now 'forward looking' and requires immediate recognition of impairment compared to delaying until actual events of loss have occurred. There has been no material impact on impairment of trade receivables as the Group currently assesses these on a monthly basis and fully provides for potential losses on a number of trade receivables when they become 90 days overdue or when circumstances of potential default become known. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

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

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

	2019			2018		
	Gross	Impairment	Net	Gross	Impairment	Net
	$m	$m	$m	$m	$m	$m
Not past due	47.0	-	47.0	42.3	-	42.3
Past due 1 – 30 days	6.5	-	6.5	7.4	-	7.4
Past due 31 – 60 days	1.9	-	1.9	1.0	-	1.0
Past due 61 - 90 days	1.0	-	1.0	1.3	-	1.3
Past due > 91 days	2.3	(0.6)	1.7	4.4	(0.4)	4.0
Total	**58.7**	**(0.6)**	**58.1**	**56.4**	**(0.4)**	**56.0**

The average credit period on sales of goods and services is 26.1 days (2018: 32.1 days).

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

11. INVENTORIES

	GROUP 2019	GROUP 2018
	$m	$m
Operational Activities		
- Fuel	1.9	2.0
- Inventory held to maintain rail network	36.1	37.8
- Inventory held to maintain rolling stock	38.9	34.0
- Inventory held to maintain ships	8.8	8.1
Inventory held for resale	0.7	0.6
Contracting Activities – work in progress	2.2	1.0
Gross inventory	88.6	83.5
Less provision for stock obsolescence	(12.8)	(11.9)
Net inventory	**75.8**	**71.6**

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

Write-downs or reversals of write-downs of inventories are recognised in operating expenses in net surplus or deficit, in the period the loss or reversal occurs. During the year, the Group has recognised write-downs in inventory of $0.3m (2018: write-down of $0.2m).

12. FINANCIAL ASSETS AND LIABILITIES

	GROUP 2019			GROUP 2018		
	Current	Non-current	Total	Current	Non-current	Total
	$m	$m	$m	$m	$m	$m
Financial assets						
Commodity forward contracts	0.4	-	0.4	3.2	0.4	3.6
Foreign currency forward contracts	2.9	-	2.9	5.2	0.6	5.8
Interest rate swaps	0.1	-	0.1	-	-	-
Total financial assets	**3.4**	**-**	**3.4**	**8.4**	**1.0**	**9.4**
Financial liabilities						
Commodity forward contracts	0.2	0.1	0.3	1.5	0.1	1.6
Loans	184.4	53.8	238.2	174.2	74.8	249.0
Finance leases	1.2	5.2	6.4	1.2	6.3	7.5
Foreign currency forward contracts	0.7	0.3	1.0	0.7	1.0	1.7
Interest rate swaps	0.6	2.9	3.5	3.7	4.4	8.1
Total financial liabilities	**187.1**	**62.3**	**249.4**	**181.3**	**86.6**	**267.9**

(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 23(b)(i). Financial assets are classified as non-current when the maturity of the hedged item exceeds 12 months.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

12. FINANCIAL ASSETS AND LIABILITIES (continued)

(b) Financial liabilities

Financial liabilities are designated at amortised cost or at fair value through net surplus or deficit. Financial liabilities are classified as non-current when the maturity exceeds 12 months.

(i) Amortised cost

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

Interest-bearing liabilities

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

Unsecured loans

The notional principal amounts of the outstanding loans for the Group were $174.2m (2018: $174.2m).

Secured loans

A loan from Bank of New Zealand is secured against MV Aratere. A loan from Westpac Banking Corporation is secured against MV Kaitaki. There are no restrictions on title. The amount outstanding for all secured loans as at the reporting date is $64.0m (2018: $74.8m).

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

	Unit	GROUP 2019	GROUP 2018
Notional principal	$m	244.6	256.5
Average interest rate	%	2.35	2.78
Average term to maturity	years	0.94	1.23

Committed standby facility

The Group has a committed standby facility with Bank of New Zealand for $15.0m as at 30 June 2019 (2018: $15.0m) with an expiry date of 1 July 2020. As at 30 June 2019, the facility is undrawn.

Letter of credit facilities

The Group had no letter of credit facilities at 30 June 2019 (2018: nil).

Standby letter of credit

The Group had no standby letters of credit at 30 June 2019 (2018: nil).

(c) Changes in liabilities arising from financing activities

	GROUP 2018	Cash Flows	Non-cash changes		GROUP 2019
			Changes in Fair values	Others	
	$m	$m	$m	$m	$m
Loans	249.0	(10.8)	-	-	238.2
Finance leases	7.5	(1.1)	-	-	6.4
Total liabilities from financing activities	**256.5**	**(11.9)**	**-**	**-**	**244.6**

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

13. INVESTMENT PROPERTY

	GROUP 2019	GROUP 2018
	$m	$m
Opening balance	**82.8**	**76.5**
Additions	0.5	0.5
Disposals	(0.8)	(0.1)
Transfers	-	1.9
Fair value gains on valuation	2.5	4.0
Balance at 30 June	**85.0**	**82.8**

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

Subsequent to initial recognition, investment properties are measured at fair value. Gains or losses from changes in the fair values of investment properties are recognised in net surplus or deficit in the year in which they arise. Valuation of leased buildings is undertaken with sufficient regularity to ensure carrying value does not materially differ from fair value. See note 23(b)(ii) for the methodology used in the determination of fair value.

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

Included within investment property is land (excluding the rail corridor) acquired as part of the joint arrangement with Northland Regional Council. The total carrying amount of investment properties relating to this joint arrangement is $3.4m (2018: $3.0m). See note 14 for further information on this joint arrangement.

The total rental income generated from investment properties for the year ended 30 June 2019 was $6.4m (2018: $5.9m). The direct operating expenses (including maintenance) arising from the use of investment properties during the year was $1.3m (2018: $1.3m)

14. JOINT ARRANGEMENTS WITH NORTHLAND REGIONAL COUNCIL

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

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

At 30 June 2019 the Group has a liability of $5.7m (2018: $5.6m) to the Council for its share of the cost of land purchased by the Council as well as other Council expenditure relating to the joint operation. This is included in Trade and Other Liabilities in note 15.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

15. TRADE AND OTHER LIABILITIES

	Note	GROUP 2019	GROUP 2018
		$m	**$m**
Trade payables		52.1	52.3
GST Payable		1.2	-
Unearned revenue		18.8	12.7
Accrued interest		1.7	1.9
Payable to joint operator	14	5.7	5.6
Other payables and accruals		48.3	31.3
Total payables		**127.8**	**103.8**
Current liabilities		127.8	103.8
Non-current liabilities		-	-
		127.8	**103.8**

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

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

Goods and services tax (GST)

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

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

16. EMPLOYEE ENTITLEMENTS

	GROUP 2019	GROUP 2018
	$m	**$m**
Current portion		
Short-term employee benefits	42.8	12.2
Annual leave entitlement accruals	46.1	40.6
Retirement and long service leave liability	6.6	5.7
Total current portion	95.5	58.5
Non-Current portion		
Retirement and long service leave	45.8	39.3
Total non-current portion	45.8	39.3
Total employee entitlements	**141.3**	**97.8**

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

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

Short-term employee benefits include the Group's estimated liability relating to the remediation of employee leave entitlements under the Holidays Act 2003. The estimated liability is measured at the amount expected to be paid up to 30 June 2019.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

16. EMPLOYEE ENTITLEMENTS (continued)

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 in calculating this liability include the discount rate and the salary inflation factor. The assumptions used by the actuaries in arriving at the retirement and long service leave liabilities were a salary increase rate from 2.22% to 2.48% per annum (2018: from 2.2% to 2.5% per annum) and a term specific risk-free discount rate of between 1.26% and 4.16% per annum (2018: between 1.78% and 4.75% per annum). The discount rate is derived from the yields on Government bonds as at the respective reporting dates, which have terms to maturity that match, as closely as possible, the estimated future cash outflows. The salary inflation factor has been determined after considering historical salary inflation patterns.

Contributions to superannuation plans

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

17. PROVISIONS

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

GROUP 2019	ACC AEP	Leased vessel costs	Reorganisation costs	Other provisions	Total
	$m	$m	$m	$m	$m
Balance at 1 July 2018	3.5	6.0	1.1	1.4	12.0
Provisions made during the year	0.5	-	-	0.2	0.7
Provisions utilised or released during the year	-	(6.0)	(1.1)	(0.8)	(7.9)
Balance at 30 June 2019	**4.0**	**-**	**-**	**0.8**	**4.8**
Current	4.0	-	-	0.8	4.8
Non-current	-	-	-	-	-
	4.0	**-**	**-**	**0.8**	**4.8**

ACC Accredited Employer Programme

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

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

Leased vessel cost

The Group has charter agreements in place for the MV Kaiarahi. Redelivery costs previously provided for have been released due to the purchase option for the ship being undertaken.

18. SALE AND PURCHASE OF LAND

On 31 December 2012 there was a restructure of the Crown's investment in rail operations. In accordance with the KiwiRail Holdings Vesting Order 2012 which took effect from 31 December 2012, the KiwiRail business was transferred from the NZRC into KHL. All land previously held by KiwiRail was retained by NZRC.

From time to time NZRC may sell parcels of railway land. Under the Group's lease agreement with NZRC entered into on 31 December 2012, the Group may identify railway land that should be sold and request NZRC to sell it or surrender it from the lease. The sale proceeds are provided to the Group to support its business as the State Owned Enterprise responsible for the financial performance of the Crown's investment in rail operations.

Similarly, the Group can identify new parcels of land that are required for rail purposes. The Group will fund the acquisition of the land and can transfer it to NZRC to be included within the lease.

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

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18. SALE AND PURCHASE OF LAND (continued)

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

The total net proceeds from land sold/land swaps during the year was $3.9m (2018: $4.8m). The total net land acquisitions during the year was $nil (2018: $1.8m). They were treated as transactions with owners in the Statement of Movements in Equity.

19. LEASES AND COMMITMENTS

(a) Finance lease

The Group has a lease agreement with Westpac Banking Corporation. Refer to note 8(a)(v) for details. The lease terms range between four to ten years and there are no terms of renewal, escalation clauses or purchase options contained within the agreement. The approved limit of this facility is $13.1m (2018: $13.1m).

At 30 June 2019 the Group had the following liability under this lease agreement:

	GROUP 2019	GROUP 2018
Total minimum lease payments due:	**$m**	**$m**
Not later than one year	1.4	1.5
Later than one year but not later than five years	5.7	4.5
Later than five years	-	2.9
Total minimum lease payments	7.1	8.9
Future lease finance charges	(0.7)	(1.4)
Present value of minimum lease payments	**6.4**	**7.5**
Represented by:		
Current	1.2	1.2
Non-current	5.2	6.3
Total finance leases	**6.4**	**7.5**

(b) Operating lease commitments as lessee

NZRC has, along with the Crown, granted a long-term lease to KRL for nominal consideration, under which KRL can enjoy the commercial benefit of the rail corridor land. KRL has primary responsibility for administering the land. Under the lease it can undertake many activities in relation to the land without requiring the consent or involvement of NZRC. It is also able to sub-lease railway land for periods of time within the term of the lease. The total minimum future sublease payments expected to be received under non-cancellable subleases at balance date is $nil.

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

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

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

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

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19. LEASES AND COMMITMENTS (continued)

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

	GROUP 2019	GROUP 2018
	$m	$m
Total minimum lease payments due:		
Not later than one year	23.3	25.3
Later than one year but not later than five years	39.9	52.4
Later than five years	32.1	38.7
	95.3	**116.4**

(c) Operating lease commitments as lessor

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

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

	GROUP 2019	GROUP 2018
	$m	$m
Total minimum lease payments receivable:		
Not later than one year	36.7	35.3
Later than one year but not later than five years	78.2	86.3
Later than five years	69.1	93.1
	184.0	**214.7**

For the year ended 30 June 2019, $42.1m was recognised as revenue included in net deficit (2018: $40.3m).

(d) Capital and other commitments

The Group has capital commitments for network upgrades, infrastructure renewal materials, manufacturing of new rolling stock, refurbishment costs relating to rolling stock and purchases of plant and equipment.

	GROUP 2019	GROUP 2018
	$m	$m
Capital expenditure commitments:		
Not later than one year	152.4	89.2
Later than one year but not later than five years	27.7	21.4
	180.1	**110.6**

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20. RECONCILIATION OF NET (DEFICIT) TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	GROUP 2019	GROUP 2018
	$m	$m
Net deficit after taxation	(324.7)	(235.9)
Add/(deduct) items classified as investing or financing activities		
Loss/(gain) on sale of assets	1.1	(0.9)
Fair value movement in derivatives	(0.4)	(13.6)
Capital grant receipts	(89.9)	(33.7)
Insurance proceeds	(44.1)	(29.9)
	(458.0)	(314.0)
Add/(deduct) non-cash items		
Depreciation and amortisation expense	103.9	86.2
Movements in provisions	(0.6)	3.5
Impairment of non-financial assets	381.1	248.6
Movement in fair value of investment properties	(2.5)	(4.0)
	23.9	20.3
Add/(deduct) movements in working capital		
(Increase) in trade receivables	(2.3)	(4.0)
(Increase)/decrease in other receivables	(8.5)	20.1
(Increase) in inventories	(4.2)	(6.6)
(Decrease)/increase in trade payables	(0.2)	1.9
Increase/(decrease) in other payables	47.9	(13.0)
Net cash flows from operating activities	**56.6**	**18.7**

21. RELATED PARTY TRANSACTIONS

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

Significant transactions with Government-related entities

The Group has been provided with equity from the Crown and capital grant funding from Government entities. Equity funding of $315.0m (2018: $430.0m) has been received together with capital grant funding of $39.5m (2018: $15.0m). An additional $120.0m of equity funding is receivable at 30 June 2019.

The Group paid $62.5m (2018: $195.8m) to New Zealand Transport Agency for the Main North Line reinstatement.

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

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

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

21. RELATED PARTY TRANSACTIONS (continued)

	GROUP 2019	GROUP 2018
REVENUE	**$000**	**$000**
New Zealand Post	3,965	3,642
Genesis Energy	3,706	25
Ministry of Business, Innovation and Employment	1,680	-
New Zealand Transport Agency	1,094	4,352
Solid Energy	-	9,133
	10,445	**17,152**

	GROUP 2019	GROUP 2018
EXPENSES	**$000**	**$000**
Meridian Energy	11,657	11,852
Transpower	3,656	3,684
Air New Zealand	3,115	3,211
Kordia	608	683
New Zealand Transport Agency	555	852
New Zealand Post	193	240
New Zealand Fire Service Commission	-	640
Other	521	725
	20,305	**21,887**

Collectively but not individually significant transactions with Government-related entities

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

Transactions with key management personnel

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

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

	GROUP 2019	GROUP 2018
	$000	**$000**
Key management personnel compensation		
Short-term employee benefits	3,628	5,898
Termination benefits	259	214
Total key management personnel compensation	**3,887**	**6,112**

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

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21. RELATED PARTY TRANSACTIONS (continued)

The following Directors earned fees during the period:

	GROUP 2019	GROUP 2018
KHL Directors	**$000**	**$000**
Brian Corban	70	-
John Leuchars	43	43
Paul Harper	43	43
John Dennehy	44	43
Bob Major	48	43
Susan McCormack	43	43
Greg Miller	43	-
Mike Pohio	40	47
Guy Royal	14	43
Trevor Janes	-	87
Paula Rebstock	-	48
	388	**440**

Brian Corban was appointed as a Director on 10 July 2018. Greg Miller held office from 1 November 2018 until 1 May 2019. Mike Pohio completed his term on 30 April 2019. Guy Royal completed his term on 31 October 2018.

22. SHARE CAPITAL

At 30 June 2019, the Group had issued 1,548,800,000 ordinary shares with no par value (2018: 1,233,800,000), each fully paid. The following rights attach to the ordinary shares issued by the Group:

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

Reconciliation of number of shares	GROUP 2019	GROUP 2018
	(m)	**(m)**
Opening balance	1,233.8	833.8
Shares issued	315.0	400.0
Shares approved but not yet issued	120.0	-
Balance at 30 June	**1,668.8**	**1,233.8**

KIWIRAIL HOLDINGS LIMITED AND SUBSIDIARIES

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23. FAIR VALUE

(a) Classification of Financial Instruments

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

	GROUP 2019	GROUP 2018
FINANCIAL ASSETS	**$m**	**$m**
Loans and receivables		
Cash and cash equivalents	114.8	87.0
Trade and other receivables (excluding prepayments)	207.9	77.1
	322.7	**164.1**
Fair value through net surplus or deficit		
Derivative financial assets	**3.4**	**9.4**
FINANCIAL LIABILITIES		
Amortised cost		
Trade and other liabilities	107.8	91.1
Interest-bearing liabilities	244.6	256.5
	352.4	**347.6**
Fair value through net surplus or deficit		
Derivative financial liabilities	**5.0**	**11.4**

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

(b) Fair Value Hierarchy

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

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

The Group does not have any Level 1 and/or Level 3 financial instruments (2018: nil).

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

i. Derivative financial instruments

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

	Level 2	
Financial instruments (Net Liability)/Net Asset	**GROUP 2019**	**GROUP 2018**
	$m	**$m**
Commodity forward contracts	0.1	2.0
Foreign currency forward contracts	1.9	4.1
Interest rate swaps	(3.4)	(8.1)
	(1.4)	**(2.0)**

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

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23. FAIR VALUE (continued)

(b) Fair Value Hierarchy (continued)

ii. Non-financial assets

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

	Level 2	
Non-financial assets	**GROUP 2019**	**GROUP 2018**
	$m	**$m**
Investment property	85.0	82.8
Buildings	53.6	40.9
	138.6	**123.7**

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

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

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

- *Investment property*

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

  Investment properties are valued accounting for market derived assumptions using comparable rental and sales evidence. When the fair value is determined, the independent valuer has utilised valuers located nationwide that are familiar with the local property market in which the property is situated. They have factored local inputs into the valuation such as rentals, capitalisation rates and land values. The market valuation methodology used for investment properties was the capitalisation of net income and direct comparison approaches. The capitalisation rates used in the valuation generally range from 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 value does not materially differ from fair value. The most recent valuation of buildings that form part of the rail CGU was carried out by an independent valuer who has recognised and relevant qualifications.

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

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

Sensitivity analysis

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

	Increase in fair value by 5%		Decrease in fair value by 5%	
Non-financial assets	**GROUP 2019**	**GROUP 2018**	**GROUP 2019**	**GROUP 2018**
	$m	**$m**	**$m**	**$m**
Buildings	2.7	0.9	0.7	0.5
Investment properties	4.1	3.9	4.1	3.9

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24. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES

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

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

(a) Market Risk

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

i. Foreign Exchange Risk or Currency Risk

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

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

The New Zealand Dollar notional principal amounts of outstanding forward foreign exchange contracts were $97.7m (2018: $122.9m).

The Group has hedged 100% (2018: 100%) of committed foreign currency capital purchases.

Foreign currency sensitivity on financial instruments

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

In NZ $m	GROUP 2019		GROUP 2018	
	Equity	Profit	Equity	Profit
Foreign currency sensitivity analysis				
Impact of a 10% strengthening of the NZD	(9.0)	(9.0)	(10.5)	(10.5)
Impact of a 10% weakening of the NZD	11.0	11.0	12.8	12.8

ii. Interest Rate Risk

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

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

The notional principal amounts of the outstanding interest rate swaps for the Group were $183.0m (2018: $198.0m), with average term to maturity of 1.33 years (2018: 1.63 years) and weighted average fixed interest rate of 3.16% (2018: 5.24%). As at 30 June 2019, after taking into account the effect of the interest rate swaps, approximately 53.6% of the Group's borrowings are at a fixed rate of interest (2018: 57.0%).

Interest sensitivity analysis

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

In NZ $m	GROUP 2019 Profit	GROUP 2018 Profit
Impact of a 100 bp interest rate increase	(1.6)	(0.6)
Impact of a 100 bp interest rate decrease	1.5	0.5

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24. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

(a) Market Risk (continued)

iii. Price Risk

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

Fuel Price risk

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

The Group is party to a number of commodity forward contracts for Singapore intermediate fuel oil and gas oil. The total notional principal amount of outstanding commodity forward contracts is $6.2m (2018: $13.0m).

(b) Credit Risk

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

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

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

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

Concentration of credit risk

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

Credit quality of assets not impaired or not yet due

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

Exposure to credit risk

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

(c) Liquidity Risk

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

Exposure to liquidity risk

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

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24. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

(b) Liquidity Risk (continued)

GROUP 2019	Carrying amount	Contractual cash flows	Less than 1 year	1 – 2 years	2 – 5 years	More than 5 years
	$m	$m	$m	$m	$m	$m
Financial Liabilities						
Trade and other payables	107.8	107.8	107.8	-	-	-
Net settled derivative liabilities	5.0	4.7	1.6	0.6	2.5	-
Finance Leases	6.4	7.1	1.4	1.0	4.7	-
Borrowings	238.2	244.1	188.1	24.2	31.8	-
Total	**357.4**	**363.7**	**298.9**	**25.8**	**39.0**	**-**

GROUP 2018	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	91.1	91.1	91.1	-	-	-
Net settled derivative liabilities	11.4	11.2	6.0	2.5	2.7	-
Finance Leases	7.5	8.9	1.5	1.5	3.0	2.9
Borrowings	249.0	259.6	179.1	23.5	57.0	-
Total	**359.0**	**370.8**	**277.7**	**27.5**	**62.7**	**2.9**

(d) Derivative Financial Instruments and Hedging Activities

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

The risk management objectives and strategy for undertaking various hedge transactions is covered by the Group Treasury Management Policy and reflected in the Group Hedging Policy. The Group does not currently apply hedge accounting to financial instruments.

(e) Capital Risk Management

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

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

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

25. IMPACT OF KAIKOURA EARTHQUAKE

A 7.8 magnitude earthquake hit the Kaikoura region on 14 November 2016 followed by a number of aftershocks. This caused significant damage to the Group's infrastructure assets along the Main North Line ("MNL").

Impact on assets

KiwiRail has continued to work on the rebuild for the financial year ended 30 June 2019 and an additional impairment charge of $131.8m has been recognised for the capital cost of reinstatement incurred as at 30 June 2019 (2018: $221.6m).

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25. IMPACT OF KAIKOURA EARTHQUAKE (continued)

Insurance

The Group has insurance coverage in place under an operational infrastructure and consequential loss policy. Cover is provided for loss and damage up to a sum insured of $350m. The Group has received insurance progress payments of $45.0m (2018: $nil) of which $2.3m is receivable as at 30 June 2019. While a claim has been submitted as at 30 June 2019, it is not practicable to estimate the full extent of the overall insurance recovery. Only the portion that can be measured reliably has been recognised as a receivable. In the year ended 30 June 2019 we have recognised an insurance receivable of $6.0m for the estimated recoverable costs incurred to date (2018: $6.0m).

Crown support

The Crown has agreed to fund the uninsured cost of the rebuild. $85m was received through equity funding in the year ended 30 June 2019 (2018: $180m).

26. CONTINGENT LIABILITIES

Marsden Point rail corridor designation

The Group has confirmed its designation of the rail corridor from the North Auckland Line to Marsden Point. The Northland Regional Council will purchase any land that may be required. The Group has an agreement with the Northland Regional Council that it will have a half share in the acquisition and holding costs of land purchases with the Council.

27. EVENTS SUBSEQUENT TO BALANCE DATE

There were no material events subsequent to balance date.

Audit New Zealand
Mana Arotake Aotearoa

INDEPENDENT AUDITOR'S REPORT

To the readers of KiwiRail Holdings Limited's group financial statements for the year ended 30 June 2019

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

Opinion

We have audited the financial statements of the Group on pages 64 to 95, that comprise the statement of financial position as at 30 June 2019, 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 2019; 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 21 August 2019. This is the date at which our opinion is expressed.

The basis for our opinion is explained below and we draw your attention to the uncertainties relating to the outcome of the rail review on the structure of the Group and carrying value of assets in future years. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and we explain our independence.

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

Without modifying our opinion, we draw your attention to the disclosure in note 1(g) on page 69 relating to the rail review, which is working towards defining the purpose of rail, and determining the appropriate structure, capital requirements and funding mechanisms for the Group in future years. The disclosure also explains that decisions arising from the review may have an impact on the basis of preparation used by the Group and how the Group's assets could be valued and presented in the financial statements.

Basis for our opinion

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

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

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

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible on behalf of the Group for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

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

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

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

Responsibilities of the auditor for the audit of the financial statements

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

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

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

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

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

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

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 2 to 63, but does not include the financial statements, and our auditor's report thereon.

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

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

Independence

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

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

Clint Ramoo
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

DIRECTORY

BANKERS

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

AUDITORS

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

REGISTERED OFFICE

Level 3, 8–14 Stanley Street, Auckland 1010

FURTHER INFORMATION

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

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