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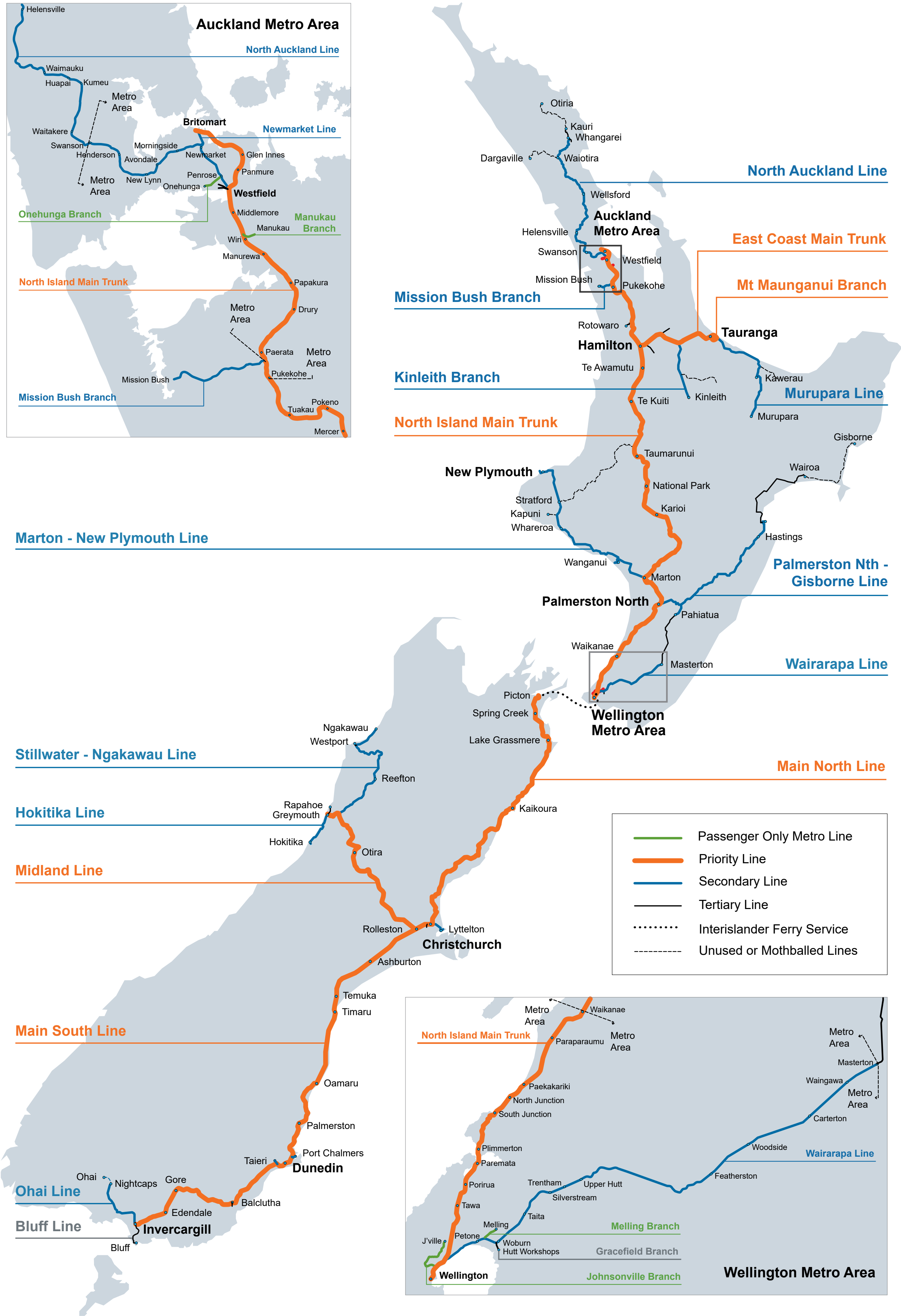
KiwiRail Integrated Report 2023

The national rail network



In this report

Introduction

Above and Below Rail performance

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Cyclone Gabrielle closed the line between Hastings and Napier in February with track and embankments washed away, and major damage to Bridge 217, which lost piers and spans in the floods. KiwiRail teams worked hard to restore the line, replacing 800 sleepers, 140 metres of rail, laying 3,000 cubic metres of formation (the rock foundation under the tracks) and 3,500 tonnes of ballast.

Statement from the Chair

KiwiRail is keenly focussed on growing its role in the future of sustainable transport in New Zealand, and 2022/23 saw it continue to move towards realising that ambition.

The above rail operating surplus of $156.5[1] million was up 17 per cent on the year before, despite the $8.5m impact of weather, including Cyclone Gabrielle.

KiwiRail is part way through a generational transformation, on the back of significant funding from the Government. Capital expenditure for the year was $1.3 billion. This is the largest level of capital investment in a single year in KiwiRail's history, up from $1.1 billion in FY22.

The results of that investment are now starting to be seen.

We are building network resilience and improving capacity for metro commuter, freight and passenger services, and we're investing in our people and our assets. Our aim is to support customer growth, improve services for customers and decarbonise the land transport system.

The new funding model KiwiRail operates under requires that 'Above Rail', commercially-driven customer operations must, by 2025, finance growth from cashflow and strong operating surpluses.

In the future, Government investment will only be available for network maintenance, renewals and improvements – the 'Below Rail' part of our operation – such as bridges, viaducts, networks, sleepers and ballast. Funding will always be limited, and our focus will be on efficiency and safety.

That means we have to change the way we run and govern the business to deliver value for our shareholder.

We are making that change through a refreshed Board and a revised leadership structure. The revitalisation of the Board has included the appointment of directors with extensive experience across the commercial sector, including aviation, energy and large-scale infrastructure.

Since his return in August 2022, Chief Executive Peter Reidy has moved to strengthen his leadership team, bringing on board executives who offer additional skills, insight and connections in terms of domestic and international supply chains, customer focus, commercial acumen and strategic thinking, and reshaping the team to ensure a strong focus on delivering for our customers.

The coming year will continue to pose a number of challenges for KiwiRail. Freight markets are largely subdued, with softened market conditions for domestic freight, and forestry impacted by the extended Napier line closure due to weather.

KiwiRail is in the midst of a once in a generation rejuvenation. Peter and the KiwiRail team have the skills and determination to ensure that is delivered.

David McLean
Chair

1. Operating surplus represents earnings before depreciation & amortisation, interest, impairment, capital grants, fair value changes and tax. This excludes non-recurring items of $1.1m included in operating surplus in the Statement of Comprehensive Income (page 63).

Statement from the Chief Executive

KiwiRail has had a year of stabilising and resetting for the future, marked by strong performance and progress in key areas as we pursue our Connect, Build and Grow strategy.

Despite some significant challenges, our team has delivered for our customers with our freight, ferry and passenger services. We provided the networks that enable 22 million commuter trips a year. We progressed many critical projects made possible by the $9 billion investment in rail through to 2030.

That delivery came from the 4900 people on our team who are central to everything we do, and to our ongoing success.

Caring for and protecting that team, and all those we interact with, is our core value. New Zealanders need to know that they can always trust us to ensure they come home safely every day, free from injuries.

We have begun a health and safety culture and leadership reset at KiwiRail, which will be a critical focus for both KiwiRail and me during the coming year. We are embarking on a programme to reduce our injury frequency rate, and are benchmarking safety leadership and culture processes against global best practice. We will build a culture centred around a safety belief mindset that all injuries and occupational illnesses are preventable, employee involvement is essential, and managers are accountable for safe work.

Diversity is a strength, and KiwiRail should reflect the Kiwi community. We have no shortage of opportunity to lift our performance. During the year, the percentage of women employed lifted1.4 points to 19.4 per cent. We have networks in place to support our Māori, Asian, Pasifika, Rainbow, youth, and women team members.

Our High Performance High Engagement (HPHE) programme – built on the idea of empowering those closest to issues in the workplace to make improvements – has been re-energised, alongside our union partners.

We continue to deliver on infrastructure projects across the country.

The Rail Network Rebuild in Auckland is readying the network for the City Rail Link. It does cause disruption but, when it is done, trains will be more frequent and more reliable. Upgrade work also continues in Wellington across the network as the city lifts its public transport game ahead of new trains arriving in the late 2020s.

Our Train Control team – vital for keeping the network running safely and productively – moved into a new purpose-built and more resilient facility in Upper Hutt as part of a wider investment which will include a new train control centre in Auckland.

The iReX team continued its work to introduce two new hybrid diesel electric ferries, and the port infrastructure needed at Kaiwharawhara and Waitohi Picton to support a resilient freight supply chain and passenger network across Cook Strait, after many years of 'patchworked' assets and infrastructure. Ship design is almost complete and enabling works are underway at both terminals. The year also saw our relationships deepen with mana whenua, who continue to partner with us on the design and services in both the ships and terminals.

On the operational side, KiwiRail, like the communities we serve and many of our customers, was badly affected by climate events, and is in the middle of extensive infrastructure rebuilds in Hawke's Bay and Northland.

In freight, the focus has been on improving service reliability for our customers, with an emphasis on enhanced maintenance and stronger asset management technical standards for our rail rolling stock and ferry assets.

Customers are committing to KiwiRail. This year we have entered into long-term agreements with Fonterra, Port of Tauranga and Coca-Cola. We are working closely with Port of Auckland to move more containers from the port by rail; Tainui Group's Ruakura Inland Port has started receiving rail freight for Kmart. This infrastructure will play a key role in the Golden Triangle, and we are proud to be working together to create more efficient supply chains.

Despite the general economic outlook impacting domestic consumption, there were strong export volumes from our key export partners Westland Dairy, Synlait, Kaingaroa Timberlands, Manulife, Alliance, Silver Fern Farms, ANZCO and AFFCO. We thank our customers for their support.

Our emphasis on maintenance was echoed in the Interislander fleet where we have taken a number of additional steps to build on our existing programmes. Our entire asset management regime for Interislander has been updated to include more detailed tracking, more frequent inspections of safety critical equipment, and global benchmarking to ensure the ferries continue to sail safely and efficiently for New Zealand.

Our ferry on-time performance stood at 83 per cent for the year, a lift of 10 percentage points. This is a positive result given the serious disruption to services following an engine issue with Kaitaki and reflects the hard work of the team.

Our Great Journeys NZ tourism rail business has recommenced all services following Covid disruptions, leading to a more than 600 per cent rebound in revenue. At the same time, we have broadened our tourism experience offering with the introduction of tourism packages, and the Scenic Plus service on TranzAlpine.

Sustainability is a key focus for the company and New Zealand to support an export-led growth economy. KiwiRail will be building on its existing commitment to cut its carbon emissions. The Government announced funding that will allow us to look in detail at how best to electrify more North Island rail lines including the freight-heavy Golden Triangle (Tauranga – Hamilton – Auckland), and how best to complete electrification on the main North Island rail line between Palmerston North and Wellington. We have also embarked on an ambitious programme to reset our targets and adopt science-aligned targets to limit future warming to 1.5 degrees Celsius. We plan to publish our new targets in the next financial year.

Since my return to KiwiRail, I have been impressed by the efforts of the team to work towards the bright future that our business has as we help build a better New Zealand.

The Government has made a huge commitment to rail in New Zealand, investing more than $9 billion in the period up to 2030. We have a bold ambition, and a clear focus and direction to support New Zealand's economic growth and prosperity. We will do this through reliable increased freight capacity for customers, seamless travel experiences for the travelling public, and decarbonisation of the New Zealand land transport system.

During a challenging year, our team has led a number of positive changes to rebuild a connected 'one KiwiRail' culture, with a purpose of building stronger connections for a better New Zealand.

Peter Reidy
Chief Executive

Our purpose

Hononga Whaikaha.
Oranga mō Aotearoa.

Stronger Connections.
Better New Zealand.

What is KiwiRail?

We are a transport services and infrastructure business moving people and freight by rail and sea, and are the steward of the national rail network.

We operate an Above Rail Business commercially and the Below Rail Network for all rail operators. We are delivering a major asset renewal programme to improve the resilience and reliability of our Above Rail Business and Below Rail Network.

Above Rail - our services business:

- Rail Freight - Rail logistics services to freight markets (domestic, forestry, bulk products and import/export)
- Interislander - Ferry services across Cook Strait for rail and road freight markets, and for tourist and domestic passengers and their vehicles
- Great Journeys New Zealand and Commuter - Passenger services for tourism markets and public transport
- Property - Management and development for rail operations and third-party land use
- Investment is focused on renewing our commercial assets, supporting our pathway to self-sufficiency.

Below Rail - our infrastructure business:

- An infrastructure division delivering asset management, infrastructure renewals/ upgrades, signalling, train control operations and improvements in the rail network for Aucklanders and Wellingtonians on the metropolitan networks and passengers and rail freight across all of New Zealand
- The Rail Network Investment Programme (RNIP) is funded through the National Land Transport Fund (NLTF), with other investments made through specific Government initiatives like the New Zealand Upgrade Programme (NZUP).

The Above Rail Business and Below Rail Network are both supported by shared corporate services, including a specialist Zero Harm team; finance; legal; human resources; information, communication and technology; policy and funding; communications and strategy teams.

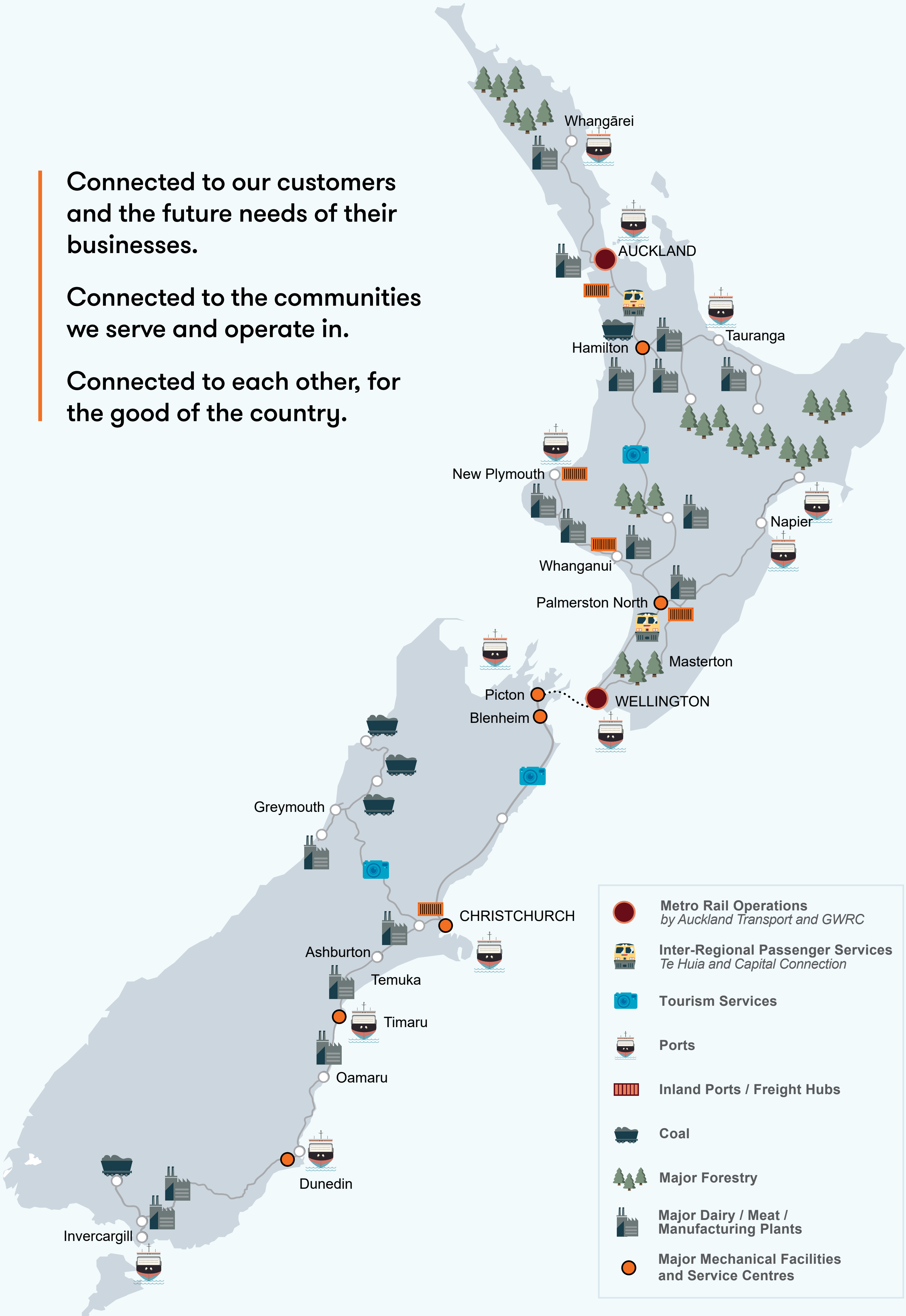
We're a national employer of 4900 people, with a presence in communities stretching throughout New Zealand, and we are a proud service provider for our customers. We're part of New Zealand's history, and its future.

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

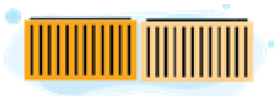
Connected to our customers and the future needs of their businesses.

Connected to the communities we serve and operate in.

Connected to each other, for the good of the country.



KiwiRail at a glance



Freight

Moves around 18 million tonnes of freight each year

Sustainability

Reduces heavy vehicle impact by more than 1 million truck journeys per year.

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

Great Journeys New Zealand

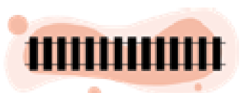
Offers tourism experiences connecting Auckland, Wellington and Christchurch with regional New Zealand

Freight services

Operates 40,400 mainline freight departures each year

240 locomotives and shunts

Track



Operates and maintains 3700km of track, including six million sleepers, of which 56% are concrete

Freight task

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

Commuters

Operates Te Huia and Capital Connection, and manages the metro networks supporting more than 22 million metro commuter trips each year

Our team

4900 employees

19% women

18% under 30 years old

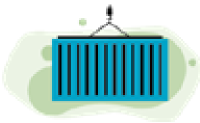
Property

Manages a portfolio worth $4.3 billion with more than 18,000 hectares of land leased from NZRC

Owns more than 900 buildings

Manages 10,000+ leases, licences and grants

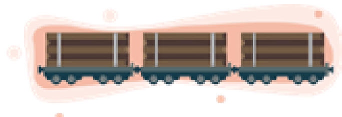
Freight customers



Connecting more than 300 customers' freight supply chains

Interislander

Operates three ships making 3300 sailings per year, providing around 600,000 passenger trips

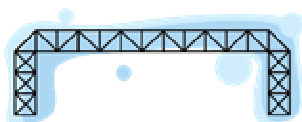


Exports and imports

Transports around 19% of New Zealand exports and imports

Value

The total value of rail to New Zealand's economy is approximately $1.7-$2.1 billion every year[1]



Infrastructure

3106 signals

1447 public level crossings

106 tunnels

1367 bridges

1. The Value of Rail in New Zealand - EY 2021 New Zealand – EY 2021

Integrated reporting

Material issues and our reporting approach

Integrated reports should report on matters that are important to both the organisation and stakeholders, and disclose information that substantively affect an organisation's ability to create value over the short, medium and long term. This report covers key material issues including: safety, future proof infrastructure, carbon and energy, customer relationships, commercial viability, diversity and inclusion, environmental performance, materials and waste, employee engagement and wellbeing, and community relationships.

Through this report we illustrate: the purpose of KiwiRail and the value we bring to New Zealand; the highlights we've had through the year across our strategic capital focus areas; our performance across our business areas, including the challenges we've had this year such as weather events and asset disruption; our governance function; and our statutory reporting. Our strategic capital focus areas cover people and safety, customer, partnerships, environment, assets and commercial. There are inputs KiwiRail uses in these capitals to create value outcomes for stakeholders.

KiwiRail had anticipated formally reviewing our material issues with stakeholders during 2022/23 but this work was postponed to allow other priorities to be pursued, including responding to the impact of Cyclone Gabrielle and other Auckland and Northland weather events, as well as focusing on the operational reliability of our Interislander fleet and Auckland and Wellington metropolitan rail networks. We are conducting a stakeholder perceptions survey, which will enable us to refresh our material issues ahead of the 2023/24 annual integrated report. At the time this report was prepared, the results were not available. This assessment is seeking views from KiwiRail's customers, stakeholder agencies in central and local government, and other groups and communities.

Our customers value ongoing improvements to our service reliability. The Government's strategy for rail places an emphasis on lifting the national network to a standard of resilience and reliability and supporting emissions reduction through mode shift from road freight to rail freight. Our staff want KiwiRail to be a good place to work, where a safety culture is paramount.

Statement of responsibility

This integrated report has been prepared using the IFRS Foundation's Integrated Reporting Framework. The Board acknowledges its responsibility for the integrated report. The Board has established processes to ensure the quality and integrity of this Integrated Report and has entrusted management with preparing and presenting it accordingly.

Audit New Zealand has provided an unqualified audit report on the financial statements in this report.

More information on the integrated reporting framework can be found at: http://integratedreporting.org

Tourist numbers on our Great Journeys New Zealand bounced back as Covid restrictions ended.

How KiwiRail creates value

Business activities

Move freight	Simplify supply chains	Connect customers between ports and regions	Extend State Highway 1 between the North and South Islands	Enable commuter journeys	Maintain the network infrastructure and operational fleet

KiwiRail values

We Care and Protect: we look after ourselves, our mates, and our environment.

We work as One Winning Team: positive, empowered and collaborative.

We are Straight and True: honest, upfront, and treating others with respect.

Which helps us deliver Great Customer Experiences as we go the extra mile.

Collaborate with public and private partners

Offer world-class tourism services

Kaitiaki (guardian) of the network corridor

Leverage the property portfolio

Promote public safety

Invest in a sustainable future

Value of Rail

Every tonne of freight carried by rail has 70 per cent fewer greenhouse gas emissions than if the same freight was carried by trucks. The 2021 Value of Rail report independently assessed the value of rail for New Zealand at up to $2.1 billion per annum[1].

Sustainable Development Goals

We recognise the impacts of our operations and embrace the role we can play in advancing the Sustainable Development Goals.

We will continue to support the delivery of these goals in line with our organisational strategy and business activities.

1. The Value of Rail in New Zealand – EY 2021

KiwiRail's strategic capitals

People and Safety capital

Input

Our 4900 people bring specialist rail, marine and technological knowledge, pride and passion to KiwiRail.

Outcome

Our people are engaged, empowered, skilled and supported to perform at work before returning home safe and healthy every day.

2022/23 highlights

- Embarked on a safety cultural reset supported by global experts and a two-year roadmap
- High risk safety events fell 4 per cent
- Built strong working relationships with our three regulators and four unions
- Percentage of under 30 employees has improved from 17.5% to 17.8%
- Proportion of women in the workforce has risen from 18% to 19.4%
- Launched new parental leave policy with additional paid leave, including caregiver leave
- Revised executive structure – increasing customer and commercial leadership, with a specific focus on rail network customers – the people who catch trains and the people whose goods move by trains
- Workforce planning underway to ensure capacity resilience in critical operational roles
- More than 55,000 instances of learning completed
- High Performance High Engagement (HPHE) formal relaunch with four unions and our front-line leaders – 16 key HPHE projects underway.

Customer capital

Input

We nurture our relationships with customers and commit to providing service excellence and reliability.

Outcome

We are a trusted service provider, consistently delivering operational service reliability and innovative freight and passenger solutions for customers.

2022/23 highlights

- 22.7 million commuter journeys enabled across the Auckland and Wellington metropolitan networks
- Two-year contract for Capital Connection agreed
- Negotiated and concluded long-standing freight customer contract renewals
- Strong finish to the season for dairy sector as it sought to take advantage of favorable export commodity pricing
- Meat sector exports remain strong
- Launched digital customer booking tool with more than 95 per cent of customer demand captured digitally across domestic sectors, and 83 per cent across all lines of business
- Stabilised and lifted asset reliability across the South Island rolling stock fleet and on Interislander
- Interislander launched commercial vehicles digital self-service booking system
- Interislander on-time performance had a 10 percentage point improvement year-on-year, up to 83 per cent in 2022/23 and reliability lifted by 8 percentage points to 87 per cent
- Great Journeys New Zealand and Interislander passenger journeys up 75 per cent on prior year, growing to more than 700,000
- Northern Explorer and Coastal Pacific returned to service after 12 months' hibernation
- TranzAlpine Scenic Plus launched with improved kitchen carriage, expanded tourism business offering with new multiday tours and short break packages, and had the first 'WOW train' (World of WearableArt) event launched with over 250 passengers across the event
- New travel centre launched to manage all Great Journeys New Zealand travel bookings, brand and website.

Partnerships capital

Input

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

Outcome

We partner effectively and respectfully with our stakeholders and we are a valued and trusted part of communities wherever we operate.

2022/23 highlights

- Strong engagement with Te Au o Rehutai, the mana whenua advisory board for Project iReX, to guide and inform decisions on environmental improvements through the project and weaving the stories of Taranaki Whānui ki te Ūpoko o te Ika, Ngāti Toa Rangatira and Te Ātiawa o te Waka-a-Māui into the new terminals and ferries
- Continued engagements with iwi across the rail corridor on the proposed extension of the core lease on railway land to ensure iwi know their rights to first refusals on railway land are not changed by an extension and to open discussions on partnerships and developments within the railway corridor
- KiwiRail was proud to join with representatives of Ngāti Maniapoto and the Crown at Te Mawhai, near Te Awamutu on 15 April, to commemorate and re-enact a sod turning event that took place 138 years earlier. 15 April 1885 saw the start of the construction of the railway line through the Maniapoto rohe (region). After deep consideration and lengthy negotiations, Ngāti Maniapoto was the final Iwi to permit railway construction within their rohe that enabled the main trunk line to be completed throughout the North Island. This section of the North Island Main Trunk has been renamed Te Ara o Tūrongo – the name originally gifted to the Crown by the Iwi, which means The Path of Tūrongo, an ancestral Rangaitra (Leader) of the Tainui confederation.
- Strengthened engagement with Australasian Railway Association and supported their NZ conference, bringing together rail system leaders from both countries to discuss leading issues and productive solutions
- Strengthened relationships with regional and local councils to support the development of their Regional Land Transport Plans, was a member of four Regional Transport Committees and attended public meetings with local and regional leaders to integrate rail into transport decision making
- Prepared another successful Rail Safety Week campaign in partnership with TrackSAFE Foundation, Waka Kotahi, NZ Police, regional councils, territorial authorities and supporting organisations throughout the country. The 'Superstitions' campaign focused on getting people looking left and right at level crossings – promoting a superstition 'Blow to the left and to the right, for safe travels'.

Environment capital

Input

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

Outcome

We are a leader in low emissions freight transport and support New Zealand's transition to net carbon zero by 2050.

2022/23 highlights

- 1.06 million truck journeys avoided in FY23, with 100 million litres of fuel and 270,000 tonnes of CO_2e emissions saved
- Driver Advice System (DAS) upgrades allowing locomotive engineers to review previous journeys to see where they can make improvements to reduce fuel burn
- Electrification budget funding of $10m to look in detail at how best to electrify more North Island rail lines.
- Completed an external verification process of our 2021/22 Greenhouse Gas (GHG) emissions inventory with Toitū Envirocare as our assurance provider.

Assets capital

Input

Our freight, inter-island, passenger and network assets are worked hard to move freight and connect people.

Outcome

We are the custodian of a reliable, resilient and safe rail and shipping network for the benefit of all New Zealand.

2022/23 highlights

- Operational asset management discipline with revised technical operating standards established, with Interislander and network plant and equipment as key priorities
- Ten new DL locomotives landed and commissioned in record time, with strong operating performance for North Island freight operations
- First two refurbished electric EF locomotives commissioned and back into service, with the programme on track for completion by June 2025
- Arrival of 221 new wagons to support reliable services to freight customers
- Reset of Interislander asset management technical operational standards reporting, with international benchmarking review underway
- Refurbished Capital Connection carriages
- Wellington Train Control Upgrade Project – new Wallaceville Centre opened
- Significant upgrades at our Woburn mechanical facility with new wheel shop facility in operation
- Phase 1 of the staged Rail Network Rebuild completed, lifting Auckland's network condition for a better rail network following completion of the City Rail Link
- 62 network projects completed during the Christmas and Easter blocks of line
- Progress on three major NZ Upgrade Projects (Wiri to Quay Park/Third Main, Papakura – Pukekohe electrification, and Drury Rail Stations)
- City Rail Link commissioning gateways developed and programme aligned with Auckland Transport and CRL Limited
- Substantial progress on the redevelopment of our Hillside mechanical facility
- Continued construction of our Waltham mechanical hub in Christchurch
- Rail Network Investment Programme (RNIP) teams delivered capital programmes to the value of $276m, up from $149m prior year.

Commercial capital

Input

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

Outcome

We are an efficient, profitable, and sustainable business.

2022/23 highlights

- Operating surplus[1] (excluding abnormal items): $156.5 million
- This was achieved despite the freight markets being largely subdued with softened market conditions for Domestic, Forestry impacted by extended Napier line closure, depressed export prices and road competition, coupled with Interislander disruptions and inflationary cost pressures across the business
- There was a strong rebound in the passenger market following previous years' Covid restrictions.
- Total passenger revenue across Interislander and Great Journeys New Zealand was $97.5m, up $50m on FY22.
- Strong property performance with a 7 per cent lift in property operating surplus, arising from continued lift in yields, reflecting a high inflationary environment and customer contract resets
- Rail sidings for Ruakura inland port development substantially completed, and Fairfield Freight hub (Ashburton) under construction for delivery in 2024
- Capital expenditure for the year was $1.3 billion, the largest level of capital investment in a single year in KiwiRail's history, up from $1.1 billion in FY22.

1. Operating Surplus represents earnings before depreciation & amortisation, interest, impairment, capital grants, fair value changes and tax. Operating Surplus excludes the $1.1m impact of non-recurring items.

Sustainability

KiwiRail is a low-emissions freight provider, with a key role to play in reducing carbon emissions from New Zealand's transport sector. We will do this by increasing our freight share at the same time as decarbonising our operations.

In 2022, we refreshed our Rautaki Whakauka (Sustainability Strategy) for 2022-2025. The process required engagement from across the business, reflecting one of our values, 'One winning team'. Sustainability is also one of the key pillars of KiwiRail's business strategy and all parts of the business will play a role in its successful implementation. Key focus areas of our Rautaki Whakauka include climate change mitigation and adaptation, minimising environmental impacts, supporting our people and communities, sustainable procurement and delivering resilient infrastructure.

KiwiRail is committed to sustainability, including supporting New Zealand's goal of achieving a net zero carbon economy by 2050. As part of this commitment, KiwiRail re-joined the Sustainable Business Council (SBC) on 1 July 2023.

Rail has a natural advantage as an energy efficient and low-emissions mode of transport, with every tonne of freight moved by rail producing at least 70 per cent fewer carbon emissions compared with heavy road freight over the same distance.

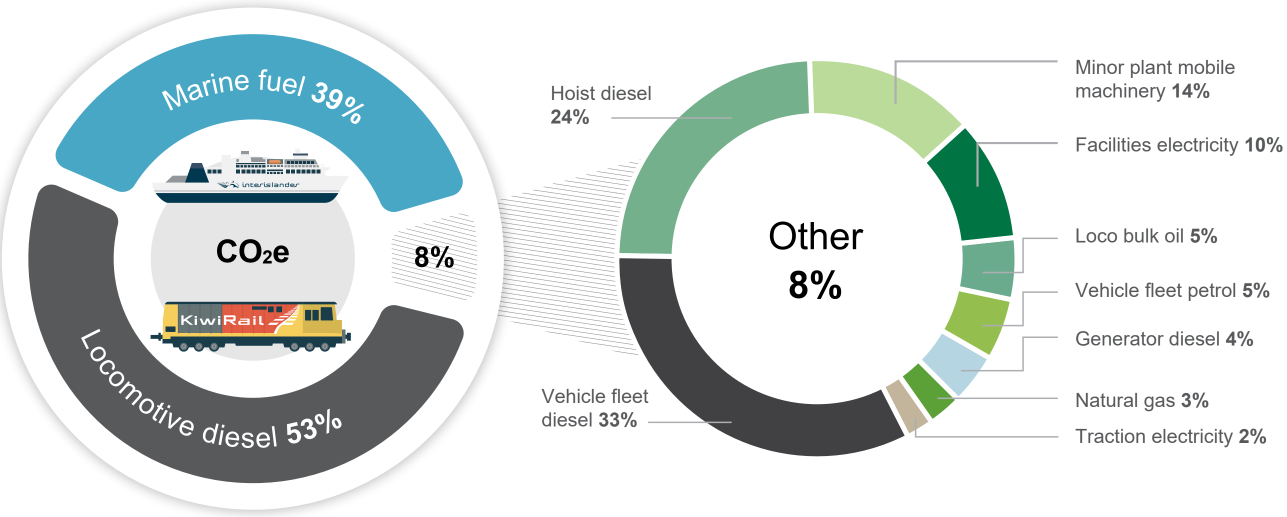
Other benefits of rail include reduced congestion through avoided car and truck movements; reduced air pollution; improved road safety, including fewer injuries and fatalities; lower road maintenance costs for taxpayers; and fuel savings.

In 2022, Ministry for the Environment published the country's first Emissions Reduction Plan which sets the direction for climate action for the next 15 years. It lays out the emissions budgets and actions needed to meet those targets

Installing solar panels at the new mechanical hub at Waltham, Christchurch, is part of KiwiRail's commitment to decarbonisation.

KiwiRail's carbon footprint for 2022/2023 – 218,945 t CO_2e

Includes scope 1 and 2 emissions only



Carbon performance

	2011/12	2018/19	2019/20	2020/21	2021/22	2022/23
Rail Freight Carbon Intensity (grams CO_2e per net tonne kilometre)	32.51	27.06	27.69	26.72	26.57	27.16
Carbon footprint – Scope 1 and 2 emissions only (tonnes CO_2e)	279,861	240,127	231,101	233,472	210,863[1]	218,945

across every sector of the economy, including transport. One of the key recommendations to decarbonise the transport sector is to reduce the emissions from the freight sub-sector by 35 per cent by 2035. This target requires multiple approaches, including lifting the freight mode share of rail as the freight market grows and decarbonising the heavy road freight fleet. The target cannot be met through 'greener' trucks alone.

Auckland Council and Greater Wellington Regional Council have also published ambitious transport emissions reduction plans, which both rely on increased public transport use of the two metropolitan rail networks. This will need investment by councils and government to make a step-change, and the Auckland Rail Network Rebuild and Wellington Metro Upgrade Programme currently underway are an important foundation in this journey.

Supporting opportunities to move more freight by rail will help achieve the targets set out in the Emissions Reduction Plan. The investment programme outlined in the NZ Rail Plan and Rail Network Investment Programme is an important foundation.

Carbon footprint

In addition to reducing New Zealand's emissions by increasing modal shift from road to rail, KiwiRail is focused on decarbonising its assets and operations.

Our sustainability programme includes carbon emissions reduction targets over the medium and long term. These are to reduce our carbon emissions by 30 per cent by 2030 (against a 2011/12 baseline) and to be net zero carbon by 2050. We measure our carbon emissions (CO_2e) on an intensity basis for our rail freight operations, and on an absolute basis for the organisation.

In the near term, it is our intention to re-join the Climate Leaders Coalition, a coalition of New Zealand businesses who are working together to accelerate the transition towards a zero carbon and climate resilient future. Meeting the minimum requirements to join the coalition will require us to reset our targets and adopt short and

1. Carbon footprint for 2021/2022 data adjusted, as a result of Toitū audit completed in June 2023.

long term gross absolute science-aligned targets for Scope 1 and 2 emissions (initially) needed to limit future warming to 1.5 degrees Celsius. Work is already underway and we plan to publish our new targets in the next financial year.

A key aspect of our sustainability programme is our close collaboration with the Energy Efficiency and Conservation Authority (EECA). EECA supports our internal carbon zero programme by attending our quarterly steering group meetings and providing guidance and advice on energy and carbon reduction initiatives.

Verification of greenhouse gas (GHG) emissions inventory

In May/June 2023, KiwiRail completed an external verification process of our 2021/22 Greenhouse Gas (GHG) emissions inventory with Toitū Envirocare as our assurance provider.

We prepared our GHG inventory in accordance with the ISO 14064-1:2018 standard which looks to quantify emissions from all sources.

For some indirect emissions categories, the data had limitations, so over the next 12 months, we will work on improving the data quality to help improve our reporting standard. We will report our emissions in line with the ISO 14064-1:2018 standard from 2024.

Carbon performance

In 2022/23 , our carbon footprint for scope 1 and 2 emissions was 218,945 t CO_2e.

Between 2021/22 and 2022/23, our carbon footprint for scope 1 emissions increased. This is due to several factors, including the resumption of regular sailings for Interislander services after a temporary reduction in 2021/22. There were also some increases in emissions related to fuel use from our vehicle fleet as our fleet size grew, as well as an added emissions source which was identified through the GHG inventory verification process.

Compared to 2021/22, overall rail freight volumes were down in 2022/23. While this supports a reduction in our absolute emissions from rail freight, it makes fuel performance on an intensity basis more challenging as trains tend to carry lighter loads when volumes are lower. This underlines the importance of maintaining an ongoing focus on rail freight operational efficiencies.

In 2022/23, we delivered various initiatives, including to reduce unnecessary idling and maximise utilisation of our Driver Advice System (DAS). Despite these efforts, our Rail Freight Carbon Intensity metric (g CO_2e/NTK) increased slightly compared to the previous year.

Overall, we remain on track to meet our current 2030 carbon reduction target, although the required reduction is likely to increase when we set our new science-aligned targets.

Decarbonisation pathway

Fuel usage by our trains and ferries makes up most of our scope 1 emissions and has been the area of greatest focus within our sustainability programme. These assets have long lifespans of 20-30 years plus, so the opportunity to replace these with modern, fuel-efficient units plays a critical role in our decarbonisation pathway.

Our new mainline locomotives for the South Island and new ferries will support progress towards our 2030 and 2050 carbon reduction targets. While the new locomotives will still use diesel, they will be built to the highest emissions standards (EU stage V) and be equipped with a range of onboard technologies to optimise fuel use. They will also be more powerful than those in our current fleet which means we will need fewer locomotives to pull heavier trains. In 2023, two prototypes are 50% through their build phase and are on track for delivery to New Zealand in 2024.

Our new Interislander ferries will be a hybrid diesel-electric battery configuration which will reduce emissions from the ferry fleet by 40 per cent when the current fleet is phased out, and by 16 per cent for KiwiRail's overall footprint. Although a much smaller part of our footprint, in 2024, we will also focus on our vehicle fleet transition strategy as we work on reducing emissions from this part of our footprint.

To support our decarbonisation pathway to net zero by 2050, we have completed an indicative business case (IBC) process for our future mainline locomotive fleet. We investigated a range of fuel, energy and motive power technologies, with battery electric locomotives and further overhead line electrification preferred. A pathway utilising these technologies would enable rail freight haulage to realise its potential to reduce carbon emissions from New Zealand's freight sector.

Over the next two years, we will focus on delivering the North Island electrification study (announced in Budget 2023), to confirm the sections of the network suitable for electrification.

Steel Wheels

We aim to build on our natural advantage as a low-emissions transport option for our customers and continue with initiatives to further reduce energy usage across our operations. In 2022/23, we have continued to engage with key customers on our sustainability goals and how we can best work together to achieve these. These engagements have been encouraging and have reiterated how our Steel Wheels reports support customers in telling their own story on how they are taking action to address climate change by choosing rail. KiwiRail helps its freight customers quantify the emissions benefits of choosing rail through a monthly 'Steel Wheels' report, which illustrates the carbon reduction achieved using rail and includes information on fuel savings.

Steel Wheels shows that in 2022/23, KiwiRail transported around 18 million tonnes of freight, which equates to taking more than 1.06 million truck trips off the road, avoiding 270,000 tonnes of CO_2e emissions .

Sustainable infrastructure

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

Through 2022/23, KiwiRail continued with progress towards achieving an IS Excellent rating for each of the Interislander terminals, Waitohi Picton and Kaiwharawhara Wellington as part of the iReX (Inter-Island Resilient Connection) programme. The programme is progressing through design phase, with early civil works also now underway.

Waste minimisation

In 2022/23, a number of objectives from the 2022 Waste Minimisation Project were completed. KiwiRail waste services within the national waste services contract have been reviewed and the verified data will be used to establish a waste baseline in 2023/24. This will enable KiwiRail to set site type targets.

We have continued to work with individual sites to review and upgrade waste management and waste minimisation systems. To date, we have worked with almost 40 per cent of our sites within the national contract to introduce separation at source recycling systems in offices and lunchrooms and continue to investigate solutions for more challenging waste streams. We have seen improved diversion of woven polypropylene bags at our Westfield mechanical depot in Auckland and the Mount Maunganui depot, as well as the diversion of timber waste from our Infrastructure and Rolling Stock sites.

Green Borrowing Programme

Inter-Island Resilient Connection project (iReX project)

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

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

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

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

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

Above and Below Rail performance

This year's financial result is our second with rail network funding integrated into the land transport management system.

KiwiRail financial performance

($m)	Group	Above Rail	Below Rail
Operating Revenues[1]	991.6	774.5	217.1
Operating Expenses	(835.1)	(618.0)	(217.1)
Operating Surplus[2]	156.5	156.5	-
Capital Expenditure	1,341.6	547.2	794.4

The Above Rail Business provides:

- Rail logistics services to freight markets
- Interislander ferry services to rail and road freight markets, and for passengers and private vehicles
- Passenger rail services for public transport (commuter) and tourism (Great Journeys New Zealand) markets
- Property management and development for rail operations and third-party land use

The Above Rail Business is receiving Government funding support for major asset replacement (e.g. ferries and rolling stock), but needs to make sufficient operating surpluses to fund its ongoing investment and financing costs.

The Below Rail Network provides Infrastructure expertise, delivering our core maintenance, renewals and improvements programme in the rail network for all rail users. The Below Rail Network is funded primarily by the Government, with the Rail Network Investment Programme funded through the NLTF and major improvement projects through specific funding such as the New Zealand Upgrade Programme. The principal source of funding for RNIP is the NLTF, administered by Waka Kotahi. The NLTF funding is supplemented with direct Crown contributions, track access fees paid by rail users, and a Track User Charge paid by KiwiRail.

The Above and Below Rail businesses are both supported by shared corporate services including a specialist Zero Harm team, finance, legal, human resources, technology, policy and funding, communications and strategy.

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

1. Operating Revenues and Operating Surplus exclude the $1.1m impact of non-recurring items.
2. Operating Surplus represents earnings before depreciation & amortisation, interest, impairment, capital grants, fair value changes and tax.

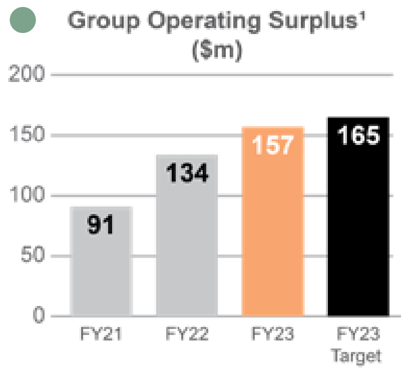
KiwiRail Group

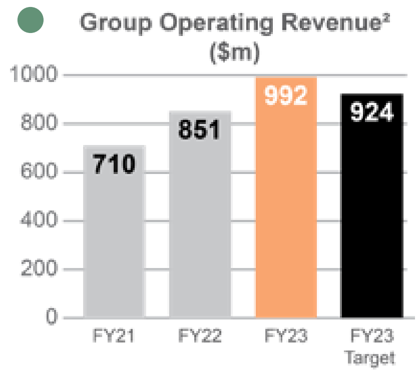
The Group seeks to achieve strong and sustainable operating surpluses and cash flows, achieve high-performance-high-engagement with our increasingly diverse staff, and ensure our systems enable a culture of safety in all that we do.

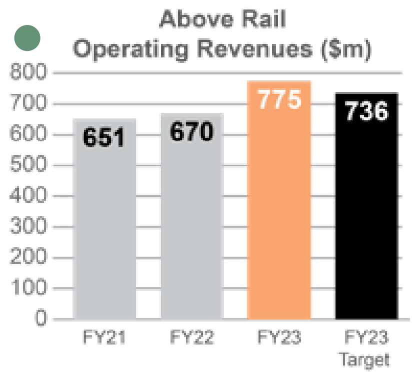
Key

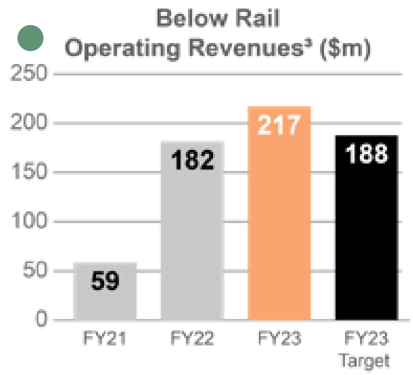
- Achieved target performance
- Within 10 per cent of target
- Below 10 per cent of target

Above and Below Rail operating revenue and funding

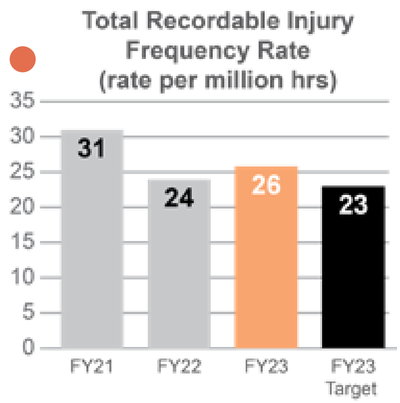


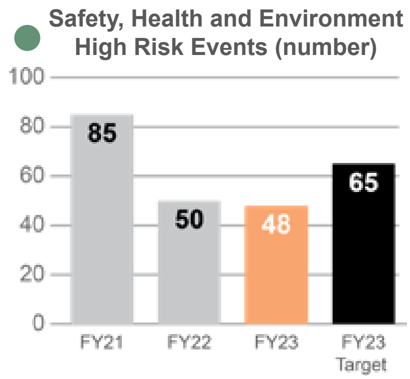


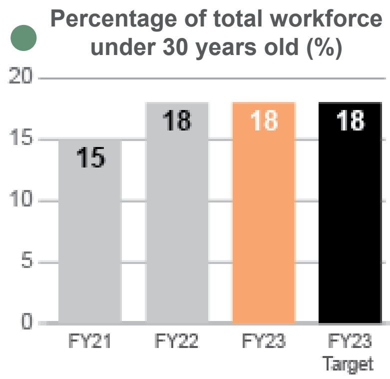


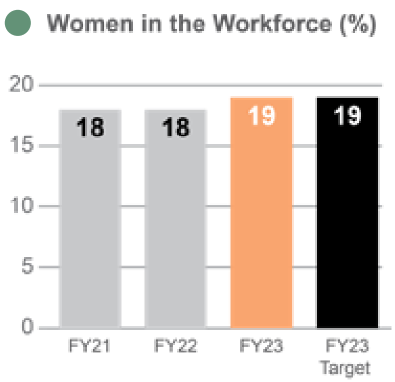


Group KPIs – Trends – People metrics









1. Operating Surplus excludes the $1.1m impact of non-recurring items. The target in the 2023-2025 Statement of Corporate Intent was $150m-$165m.
2. Operating Revenues excludes the $1.1m impact of non-recurring items.
3. Below Rail is funded by the Rail Network Investment Programme, which came into effect on 1 July 2021. As such, the FY21 figure is lower.
4. The FY23 eNPS survey has been delayed due to prioritising the safety culture perception survey as the main all-staff engagement focus. KiwiRail will undertake the next engagement survey in the second half of 2023/24.

Apprentice Mechanical Engineer William Viehoff is part of the team in the new wheel shop at Hutt Workshops. The new wheel shop doubles the number of wheelsets that can be serviced and is part of upgrades to 12 mechanical depots around the country.

Group performance commentary

KiwiRail reported an operating surplus of $156.5[1] million for the year ended 30 June 2023. This is a solid result, and was achieved despite major adverse weather events in Hawke's Bay and Northland which impacted our customers and our rail lines. KiwiRail's domestic and log volumes softened off the back of a wider economic slow-down in both China and New Zealand. Interislander was also impacted by reliability issues, which constrained passenger and freight capacity during peak. Great Journeys New Zealand rebounded from the pandemic period with Northern Explorer and Coastal Pacific resuming with solid passenger numbers.

In safety terms, the Total Recordable Injuries Frequency Rate (TRIFR), which records how often injuries are happening at work, increased by 8 per cent – from 24 to 26 injuries per million people-hours worked. Efforts to re-set our Care and Protect culture and address critical safety risks are gathering momentum, and this result reinforces that there is still work to be done.

Below Rail funding is cost-revenue neutral, and therefore does not affect the Group's operating surplus. KiwiRail has the role of network provider for all rail users – Auckland and Wellington metro users, rail freight businesses and their customers, inter-regional rail commuters, heritage excursion customers, and tourists on Great Journeys New Zealand. Our network teams performed creditably, with major work programmes delivered across the network. For example, 62 projects were completed during the busy Christmas and Easter blocks of line. While the EM80 scheduling issue is deeply regretted, our team worked quickly to minimise the disruption. We have changed our systems to ensure this doesn't happen again.

Our people are our strength. In 2022/23, we recruited 1,100 new staff across the Group, of whom 30 per cent are women and 30 per cent are under 30 years old. We are conscious of the need to diversify our team and as part of that we grew our graduate and intern intakes by 22 per cent, with a focus on attracting women and younger employees into both programmes. As part of monitoring our performance, we calculate KiwiRail's Gender Pay Gap using the Statistics NZ methodology. The gap at 3.2 per cent is about one-third of the national average (9.1 per cent).

1. Operating Surplus represents earnings before depreciation & amortisation, interest, impairment, capital grants, fair value changes and tax, and excludes the $1.1m impact of non-recurring items.

Above Rail business

Rail freight

Serving our customers in imports/exports, bulk commodities, and domestic freight despite challenges brought by extreme weather, Interislander mechanical issues and softening forestry and domestic markets.

What we do

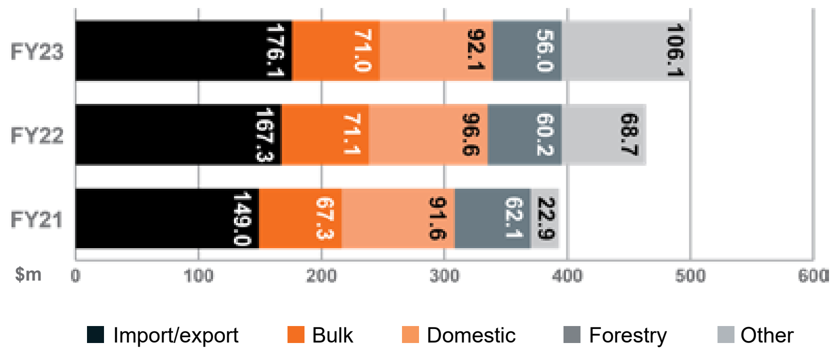
Operations at a glance

We operate around 1000 mainline freight departures per week (peak) moving 13 per cent of New Zealand's freight task and 19 per cent of New Zealand's exports and imports. This is equivalent to 1 million truck trips.

People and assets

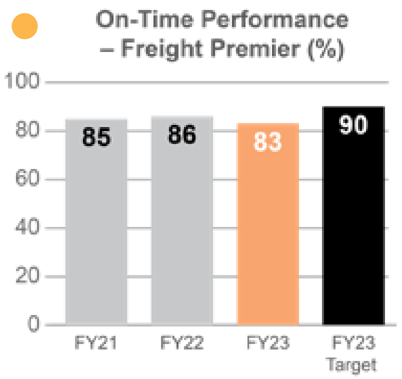
- 1859 employees, including 398 locomotive engineers and 250 trainees and apprentices
- 240 locomotives and shunts, and around 4700 wagons
- Major rolling stock workshop at Woburn (Lower Hutt), with Hillside (Dunedin) and Waltham (Christchurch) currently being redeveloped. Maintenance depots at 12 other locations
- 19 container transfer and rail terminal sites.

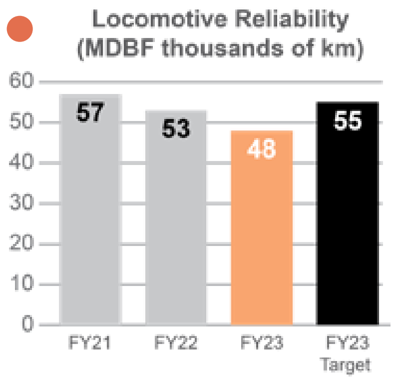
Freight operating revenue totalled $501.3 million – 8 per cent up on prior year.

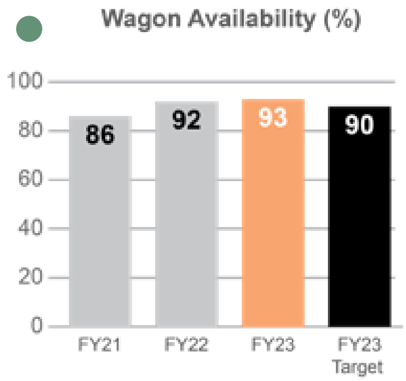


What we did – our performance

Operational KPIs – Trends



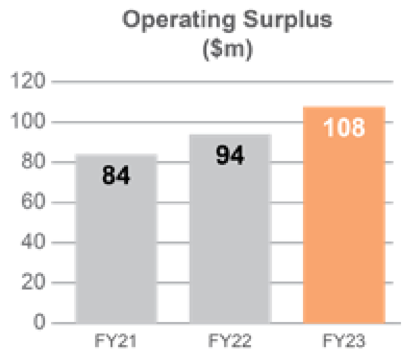


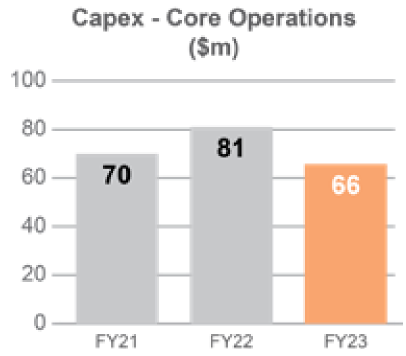


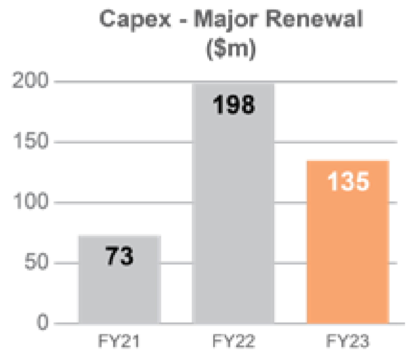
Key

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

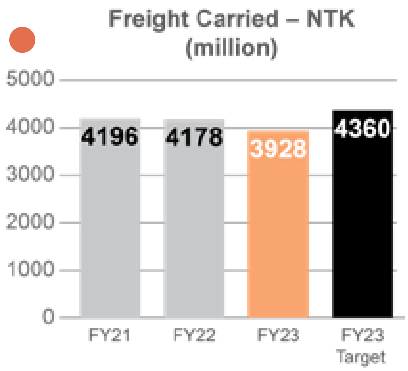
Rail freight financials and funding

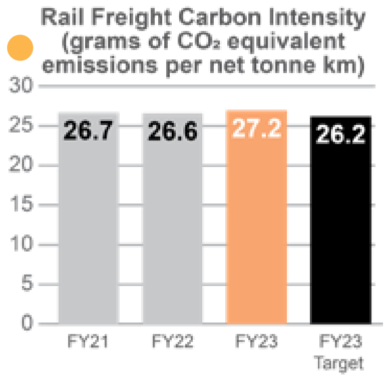


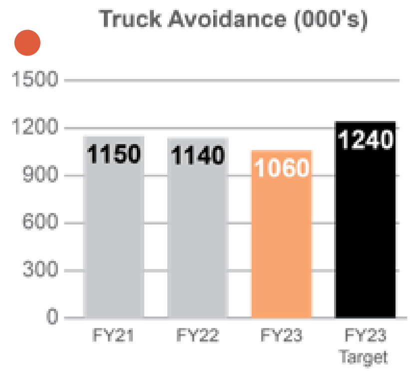




Outcomes and benefits







Operations commentary

Rail freight operations occur on every operational line in New Zealand. KiwiRail supports the economy with half of all imports and exports from the largest coastal port in the country, Port of Tauranga, moved by rail. Without rail, our ports would congest and the flow of product from New Zealand businesses to the world would be severely limited. Rail provides critical capacity, particularly for long-distance and heavy products, which would otherwise result in a million more truck trips per year on the road and associated emissions, at a time where driver shortages are a major problem for the road freight sector. A successful New Zealand needs all freight modes to be fully deployed.

The rail freight result was affected by a number of factors including Port of Tauranga temporarily adjusting its schedule which had an impact on total net tonne-kilometres (NTK) travelled. The future remains positive for this route, as rail is key to Golden Triangle freight flows as evidenced through the integration of rail in the new Waikato-Tainui multi-modal freight hub at Ruakura, Hamilton.

In addition, customers and our rail network in Northland and Hawke's Bay were impacted by Cyclone Gabrielle, leading to lower freight volumes and trucks avoided. The weather events and subsequent outages and temporary speed restrictions also created many challenges for our freight operations teams and resulted in on-time performance being below both target and the previous year.

Wagon availability exceeded target, reflecting the benefit of new wagons, while improvement programmes have been implemented to arrest the adverse trend in locomotive reliability, which is a result of the aging DX and DC fleets. In particular, locomotive traction motor renewals have recently delivered significant improvement in the reliability of the South Island locomotive fleet. The arrival of 10 new DL locomotives, ongoing rollout of refurbished EF locomotives and KiwiRail's enhanced focus on the South Island and DL class fleets is expected to boost performance next year.

The improvement in operating surplus reflects the improvement in yield from contract renewals and general rate increase. This was partially offset by impacts of network outages, cancelled ferry sailings and inflationary cost pressures.

Key achievements included:

- Negotiated and closed out long-standing freight customer contract renewals
- Continued lift in yields reflecting a high inflationary environment
- Strong finish to the season for the dairy sector as it sought to take advantage of favourable export commodity pricing
- Shipment of meat for exports by rail remained strong
- Ruakura inland port development substantially completed, boosting

volumes on New Zealand's Golden Triangle, and Fairfield Freight hub (Ashburton) under construction for delivery in 2024
- Launched longer and heavier trains on the North Auckland Line following an upgrade to take 18-tonne axle loads, which were unfortunately halted by the Auckland Anniversary Weekend rainfall
- Launched digital customer booking tool with over 95 per cent of customer demand captured digitally across domestic sectors, and 83 per cent across all lines of business
- Implemented lean management tools in freight terminals, launching proactive management of operations and performance dashboards
- Standardised role and responsibilities of Freight Operations Managers, embedding changes through development and delivery of a competency framework and commercial training.

Capital expenditure

KiwiRail is progressing a major renewals programme for our locomotive and wagon fleet. The multi-year rolling-stock programme is expected to be completed in 2027 and is funded through shareholder equity committed during Budgets 2019 to 2022. This programme is critical to improving service reliability and reducing the risk associated with an ageing rolling stock fleet. In the meantime, we are implementing targeted maintenance programmes on our existing assets to improve their reliability. These will be undertaken in conjunction with our planned service programmes which are part of our asset management plan.

Key achievements included:

- 10 new DL mainline locomotives arrived in April 2023, ready for the FY24 peak
- Production began in Spain for the first two of 57 new, state-of-the-art, low-emission mainline locomotives for use in the South Island, with these due to arrive in New Zealand in 2023/24
- Our wagon replacement programme of nearly 3000 of our freight wagons continued this year, with 221 new wagons arriving early 2023 to support our 2023/24 freight peak
- Components for the first 450 of circa 1500 wagons to be locally assembled at our new Hillside facility have been ordered and are due to arrive late-2023.

Outcomes and benefits

KiwiRail delivered 3.9 billion net tonne kilometres (NTK measures the freight tonnage multiplied by the distance travelled). This delivered significant benefits to New Zealand in the form of avoided carbon emissions as well as reducing congestion and improving safety by keeping large volumes of freight off roads.

Weather events, ferry disruptions and adjustments by some customers to market conditions meant this was not as high as the 4.2 billion NTK we projected for the year. However, we are focussed on increasing capacity and improving the reliability and service performance of our commercial assets. This is essential for the resilience of New Zealand's freight supply chain.

Outlook

The freight market outlook is challenging in the short term, due to headwinds in the domestic and global economy. We expect domestic freight volumes to remain soft during 2023/24. Similar statements and projections are coming from road freight operators. We expect competition among all domestic road transport operators to intensify, as is typical in slowing economic cycles. With economic indicators forecast to improve in 2024, we may see economic activity lift again and KiwiRail is well positioned to take advantage of this uplift.

Off-port intermodal infrastructure development in Ruakura Inland Port in the Waikato and the Ashburton Inter-modal hub in South Canterbury should boost rail volumes and see the conversion of product moving from road to rail in coming years.

Export markets are expected to be resilient to economic conditions, whereas import volumes have reduced as domestic consumption softens.

The commodity pricing for export logs has fallen as demand, particularly from China, has reduced as a result of the economic climate in China and an oversupply of logs to process. We do not expect conditions to materially improve in 2023/24.

Rail freight capability will be in a strong position as the network is progressively lifted to a higher standard of resilience and reliability, as rolling stock and mechanical facility assets are renewed between now and 2027/28, and as the expected reliability and productivity benefits start to flow from continued implementation of lean management, and enhanced quality assurance and continuous improvement capability.

In the meantime, KiwiRail's freight services are still operating with aged assets in some places, which requires ongoing maintenance to improve service reliability for our customers. We are making efficient use of our mechanical workshops to keep our wagons and locomotives maintained and working. The completion of the Waltham and Hillside workshops will set South Island operations up well, supported by recent improvements like the new wheelshop at Hutt Workshops to efficiently, safely and productively re-profile wagon and locomotive wheels.

The commissioning of 10 DL locomotives, the arrival of two DM locomotive prototypes, 239 container flat-top wagons and components for the local assembly of 450 container flat-top wagons will continue to improve service reliability for customers in 2023/24 and beyond as aged assets are retired.

Our people are central to our future success. Reopening of borders and changes to immigration settings have assisted in recruiting key skills into KiwiRail, but the primary focus for mechanical engineers and fitters recruitment remains domestic.
We also continue to partner with our unions to optimise on-the-job training standards for our locomotive engineers and empower our terminal team leaders to deliver a safe and modern working culture, and to build operational excellence through our asset capacity and reliability to deliver customer value.

Interislander

Interislander passenger and freight volumes improved with the reintroduction of Kaiarahi and the return of international tourists, and an enhanced maintenance programme was introduced following unexpected disruptions on Kaitaki.

What we do

Operations at a glance

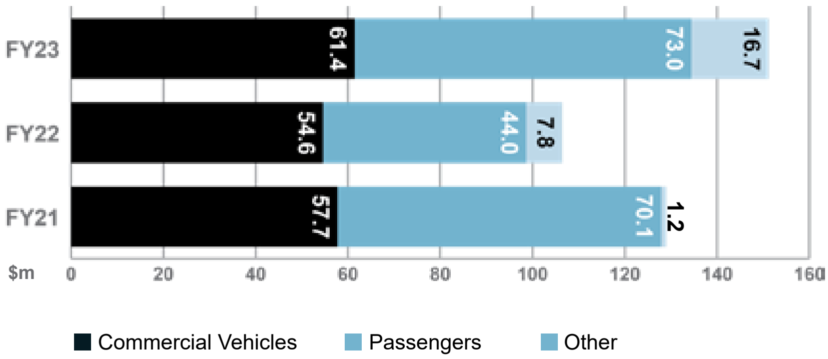
In 2022/23 we operated 3320 sailings between Wellington and Picton.
During peak freight and passenger times of the year, we mostly operate 12 daily sailings.
On our busiest passenger days of the year, we carried more than 5700 passengers and 2000 passenger vehicles.

People and assets

- 720 employees, including 15 trainees and apprentices
- Four ships (including Valentine, which was sold in September 2023)
- Two terminals and marshalling yards across Wellington and Picton.

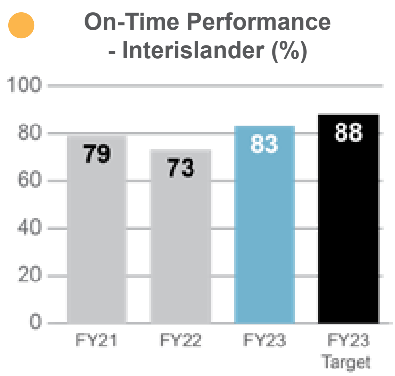
The safety of our passengers and employees is always the top priority for our Interislander crews and determines operational decisions.

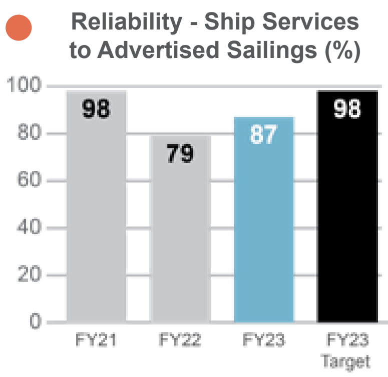
Interislander operating revenue $151.1 million[1] – 42 per cent growth on prior year



What we did – our performance

Operational KPIs – Trends



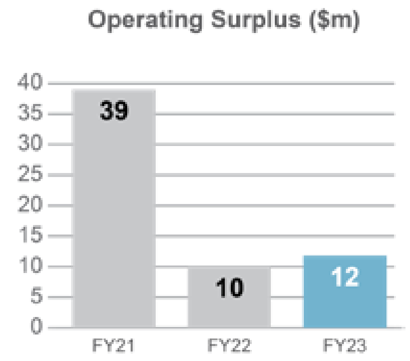


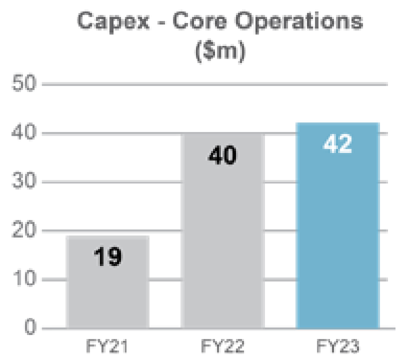
Key

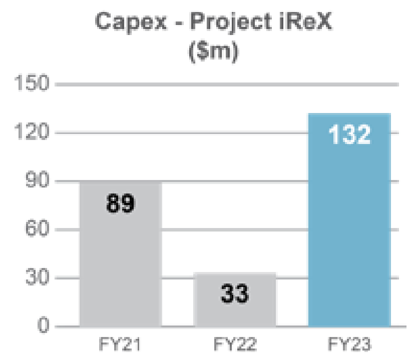
- Achieved target performance
- Within 10 per cent of target
- Below 10 per cent of target

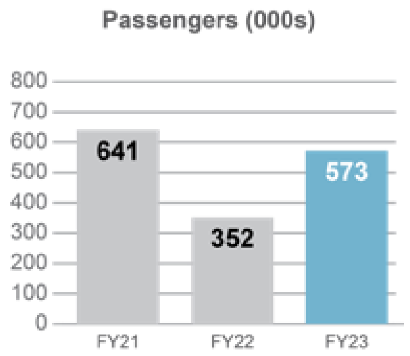
1. Excludes domestic rail freight on Interislander counted in the Rail Freight operating revenue line

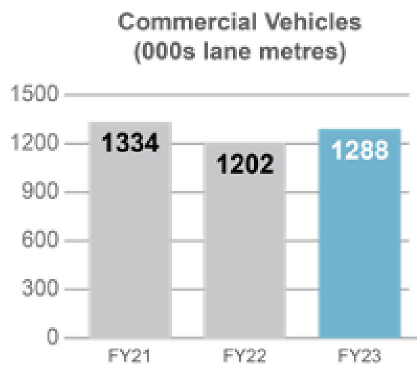
Interislander financials and funding











Operations commentary

Interislander's operating surplus improved in a challenging year dominated by mechanical issues. A Kaitaki gearbox failure saw the ship taken out of service for an extended period while repairs were undertaken. These challenges led to sailing cancellations which dampened the rebound in passenger and freight revenue from the return to service of Kaiarahi in September 2022 and the return of international tourists as the impact of Covid lessened.

While our on-time performance and reliability improved, Interislander still faced significant disruption during 2022/23 as a consequence of mechanical issues and weather events.

KiwiRail is focused on lifting reliability and on-time performance for our customers, through increasing resiliency of critical frontline roles, enhanced inspection and maintenance programmes, and system improvements. We improved our processes and practices during 2022/23 and the service performance under this regime has been strong.

Key achievements:

- Successful replacement of the Kaiarahi gearbox and return to service after a year out of service
- Strong passenger demand over the Christmas and New Year period, circa 80 per cent of pre-Covid tourism levels experienced
- Launch of the commercial vehicles digital self-service booking system, making it easier for customers to transact with us online
- Completion of an extensive review of ship condition and maintenance practices and implementation of an enhanced ship inspection and maintenance programme to strengthen reliability for our customers.
- Engagement of reputed international classification society and maritime risk advisory experts DNV-GL (Det Norske Veritas) to work with our internal team to peer review our entire ferry fleet asset management maintenance systems and processes. The initial outcomes of this global review are encouraging and support the forward direction we are taking to ensure our older fleet is managed with a safety and reliability first leadership approach.
- Ongoing commitment to improving systems to reduce unplanned disruption.

Capital expenditure

During 2022/23 Aratere and Kaitaki underwent their regular major maintenance programme, and Kaiarahi returned following a substantial maintenance programme as part of its gearbox repair. Valentine was purchased after initially being leased in 2021/22.

KiwiRail is progressing project iReX (Inter-Island Resilient Connection), which will transform the Interislander fleet with two new rail-capable, low-emissions ferries and new terminal infrastructure in both Wellington and Waitohi Picton. The programme will be completed in 2027/28, after the second new ferry arrives and comes into service in 2026. KiwiRail is investing to ensure its systems are equipped for the new operations and services.

Key achievements:

- Successful completion of Aratere wet dock and Kaitaki dry dock scheduled maintenance across August and September 2022, ahead of peak season from October 2022 to April 2023
- $42 million capital expenditure toward maintenance of the vessels (including dry docks) and investing in systems for the new Interislander fleet
- $132 million capital expenditure on the iReX project
- Significant progress was made during 2022/23 on the ship procurement project, with all major component makers now selected and basic design completed. Steel cutting for the first ship is expected to commence in March 2024.
- Picton and Wellington terminal enabling works were progressed this year and are nearing completion with a temporary Picton terminal in operation since June 2023, allowing the old terminal to be demolished.

Outcomes and benefits

KiwiRail's ferries are a critical extension to State Highway 1 and enable the rail network to be operated as a single national network, providing an important service for New Zealand's supply chain.

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

Moving people across Cook Strait by ferry provides an alternative to flying that allows them to travel with their vehicles and offers the quintessential New Zealand experience of 'cruising on the Interislander'.

Outlook

Passenger demand continues to grow as key international tourist markets start to return and airfares remain high. International tourist numbers are predicted to increase in 2023/24 to around 80 per cent of pre-covid levels, up from 63 per cent in 2022/23.

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

With the fleet back to full capacity, Valentine was readied for sale (and was subsequently sold in September 2023) to free up resources to strengthen reliability in the rest of the fleet.

Project iReX will bring two modern, rail-enabled ferries to replace the Interislander fleet in 2025 and 2026. We are gearing the business up to ensure we take full advantage of the shift. The two new ferries will increase capacity and efficiency and improve the Interislander experience. However, maintaining optimum operational delivery during construction of new port infrastructure is complex and will require some trade-offs to be made over the next few years.

Passenger demand on the Interislander is growing as the tourism market opens up and airfares remain high.

Great Journeys New Zealand and commuter

Successful return of Northern Explorer and Coastal Pacific services, rollout of Scenic Plus Experience and new travel centre, providing a strong platform for sustainable growth.

Te Huia received a 98% overall satisfaction response from customers and Capital Connection's refurbished carriages rolled out of Hutt Workshops.

What we do

Operations at a glance

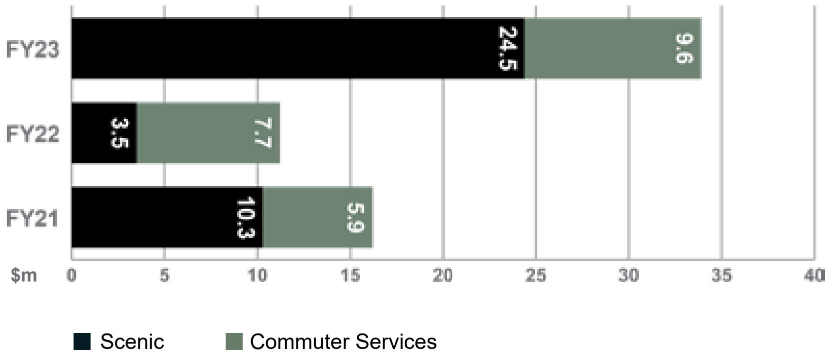
We operate:

- Three Great Journeys New Zealand (GJNZ) services providing a unique rail tourism experience on three routes: TranzAlpine, Coastal Pacific and Northern Explorer
- Two public transport service operations, Te Huia and Capital Connection, under contract with regional authorities, connecting commuters between Hamilton and Auckland, and Palmerston North and Wellington respectively
- A newly-established travel centre, offering end-to-end travel services, including multi-day tours, charters and short break packages.

People and Assets

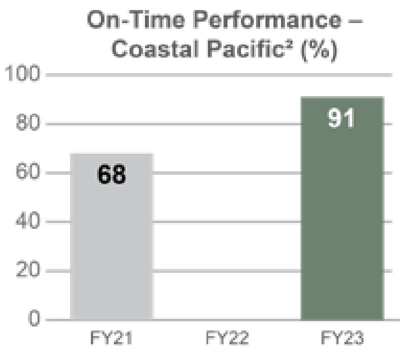
- 95 employees[1]
- 7 DFB class locomotives, 3 DX class locomotives, 29 GJNZ carriages and 21 commuter carriages
- Mechanical facilities in Auckland, Hamilton, Wellington and Christchurch, with stations and platforms stretching across the network.

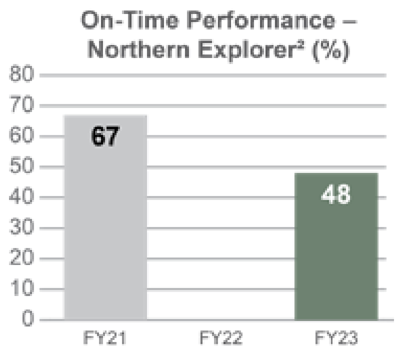
Great Journeys New Zealand and Commuter operating revenue $34.1m – 206 per cent growth on prior year



What we did – our performance

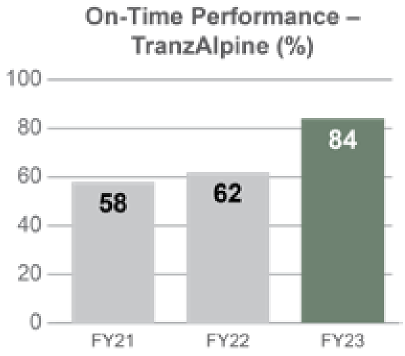
Operational KPIs – Trends

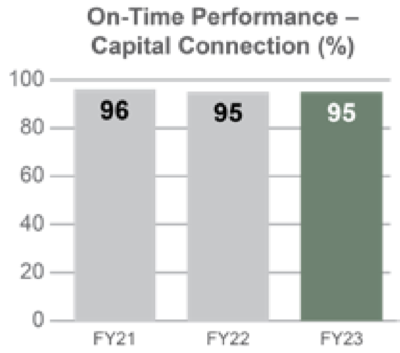


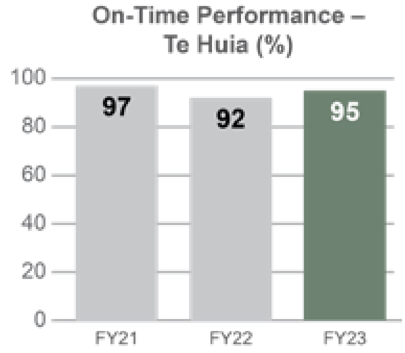


1. This includes 27 rolling stock employees who are in the passenger train maintenance team.
2. On-time performance for Northern Explorer and Coastal Pacific is not provided for 2021/22 as these services operated for six weeks only during 2021/22, and were paused for the remainder of the year due to Covid.

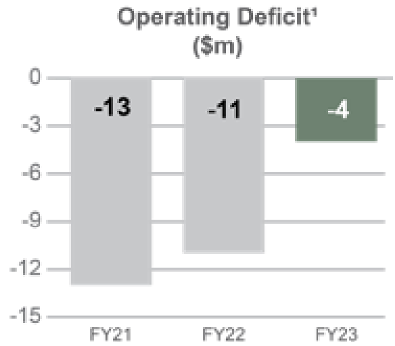
Operational KPIs - Trends (cont)

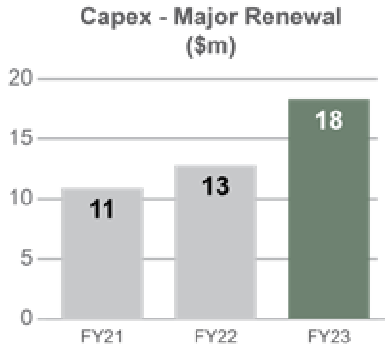




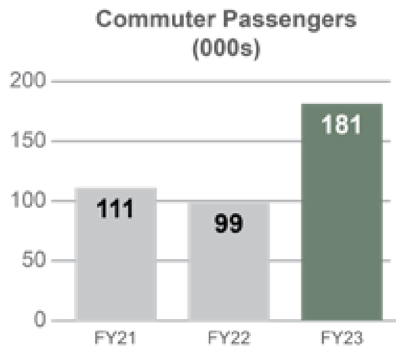


Great Journeys New Zealand and commuter financials and funding





Outcomes and benefits



Operations commentary

GJNZ tourism restarted its Northern Explorer and Coastal Pacific services from September 2022 following a period of hibernation due to Covid, delivering significantly higher passenger volumes and revenue.

Passengers on TranzAlpine and Coastal Pacific services experienced higher levels of on-time performance, the result of initiatives focused on staff capacity, asset reliability and timetables. Like Auckland's metropolitan services, Northern Explorer services were impacted by track temporary speed restrictions implemented to deliver the Rail Network Rebuild programme and following major weather events.

KiwiRail rolled out its new travel centre, offering end-to-end travel services built around our Northern Explorer, TranzAlpine and Coastal

1. Great Journeys New Zealand was heavily impacted by COVID-19, like all tourism businesses. KiwiRail has projected short-term operating deficits and the business unit is on track to return to surplus in the near term, supported by new products and world-class services.

Pacific routes. In addition to the new services increasing revenue and enabling our GJNZ services to be more financially sustainable, it will continue to help other tourism operators linked to GJNZ to recover after the impact of Covid.

As part of broadening our offering, TranzAlpine Scenic Plus launched with a new kitchen carriage, allowing passengers to enjoy hot in-seat meals. This new carriage was developed with funding from Kānoa, recognising the benefits of bringing tourists to the West Coast.

The Te Huia and Capital Connection commuter services have out-performed on-time performance targets. This was the first full year without Auckland Covid-19 restrictions for Te Huia, with record patronage achieved as people returned to the office and made use of the Government's 50 per cent fare reduction. The temporary restriction on operating in Auckland following two signal passed at danger events occurred after 2022/23 but the strong response from the public reminded us of the value placed on the service by its customers. Te Huia received a 98 per cent overall satisfaction rate score from surveyed customers.

New refurbished Capital Connection carriages were introduced shortly after the end of 2022/23 (with funding from the Government's NZ Upgrade Programme), with completion of the first set of carriages occurring during 2022/23. The full complement of carriages will be introduced during 2023/24 and will keep the service running with comfort until brand new units arrive in the late 2020s.

KiwiRail has continued to drive a strong safety focus across all services and has worked closely with the regulator to ensure our safety cases continue to provide reliable and safe services for our passengers.

Key achievements:

- Successful return of Northern Explorer and Coastal Pacific services from September 2022
- Launched Scenic Plus experience on TranzAlpine, our premium dining, viewing and host experience
- Step change achieved in on-time performance for GJNZ services in the South Island
- Te Huia service met its year two one-way demand goal and is contributing to lowering emissions
- 98 per cent satisfaction among Te Huia passengers
- Refurbishment of Capital Connection consists (the carriages that make up a train) to put the service on a sound footing in the coming years.

Capital expenditure

With funding from Kānoa, KiwiRail is refurbishing carriages for the Scenic Plus service which will have a kitchen, premium seating carriages and new infotainment system. Improvements to platforms at stations have also been completed ready for the new Scenic tours and packages.

In addition, the NZ Upgrade Programme funded carriage refurbishment for the Capital Connection. Eleven carriages were completed during the year. The same programme also saw progress on upgrades to the station platforms in Palmerston North, Shannon, Levin and Ōtaki.

Outcomes and benefits

Great Journeys New Zealand services connect New Zealanders and international guests to regional New Zealand and tourism experiences, playing a key role in regional economies. These services operate on a commercial basis.

Commuter services support New Zealanders getting to and from major urban centres. They are a low-emission, comfortable transport choice that reduce reliance on car travel. These services receive funding from regional authorities and the National Land Transport Fund.

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

Outlook

International tourist numbers are predicted to increase in 2023/24 to around 80 per cent of pre-covid levels, up from 63 per cent in 2022/23. This growth should continue to flow through to passenger volumes and earnings.

The successful launch of the Scenic Plus service in 2022/23 will be rolled out on Northern Explorer and Coastal Pacific services in 2023/24. Demand for the service has exceeded expectations. In addition, we will also be rolling out our new Infotainment system to improve customer experience and support revenue opportunities.

Our new travel centre provides a strong platform to grow multi-day travel and group events nationally and increase patronage and yield across our services.

The introduction of refurbished Capital Connection carriages to the service in July 2023 improves service reliability and comfort.

We continue to engage with Waikato Regional Council on expanding Te Huia services within the next couple of years to include additional non-peak services.

Property and facilities

Rail corridor developments and renewals in every major centre, along with concluding an iwi engagement programme regarding our core lease on railway land.

What we do

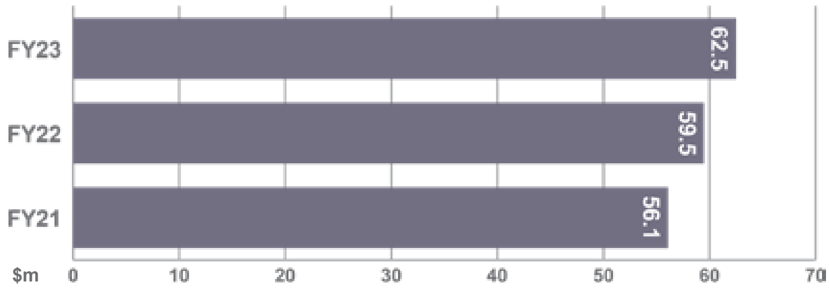
Operations at a glance

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

People and assets

- 46 people
- More than 18,000 hectares of land holdings
- More than 10,000 leases
- More than 900 buildings
- More than 3000 level crossings
- 14 contracts signed for the acquisition of $15 million of land (primarily for the Marsden Point Rail Link and Drury Rail Stations).

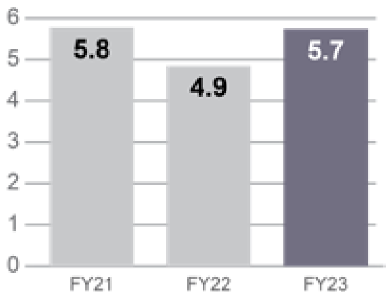
Property operating revenue $62.5 million – 5 per cent growth on prior year



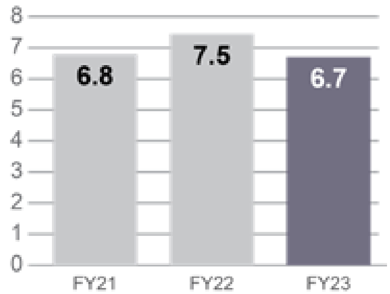
What we did – our performance

Operational KPIs – Trends

Yield of property portfolio (%)

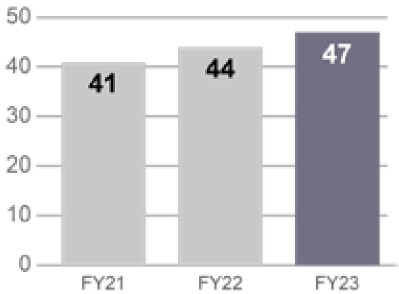


Weighted Average Lease Term (years)

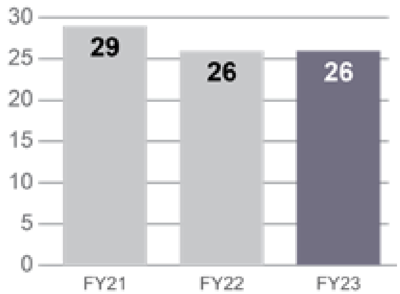


Property and facilities financials and Funding

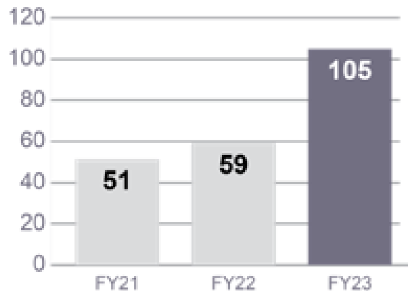
Operating Surplus ($m)



Capex - Core Operations ($m)



Capex - Major Developments[1] ($m)



1. Major developments includes mechanical facilities upgrades, Wellington Railway Station improvements, Train Control facility and land acquisitions for the proposed Central North Island Freight Hub and Marsden Point Rail Link. These developments are Government-funded. Amounts exclude components funded by the RNIP.

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

Operations commentary

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

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

Key achievements included:

- Strong financial performance with a 16 per cent increase in property portfolio yield and 7 per cent lift in operating surplus
- Engagement concluded with iwi on the proposed extension to the core lease on rail land, supporting the long-term use of the rail corridor for the network and KiwiRail. Core lease extension is now with Treasury for final approval
- Lease extended for Metrobox, Southdown for an additional 10 years
- Relocation of the Wellington train control centre to a new facility in Upper Hutt, and continued development of a new train control centre in Auckland
- Completed final stage of co-locating Auckland-based teams to the Millennium Centre in Ellerslie, providing a range of modern and safe workspaces to help our people connect and collaborate
- Installed four trackside amenities to improve the work environment for our staff and remove barriers for our female employees.

Capital expenditure

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

Key achievements included:

- $26.0 million in core capital expenditure on our existing facilities, including earthquake strengthening and capital maintenance. Within this, KiwiRail invested:
  - $7.8 million in capital expenditure for commercial property
  - $18.2 million in capital expenditure for a range of minor facilities projects
- Major developments of $105m included multiple mechanical facilities across New Zealand (expected to be completed in 2025), supporting new rolling stock and wagons and the improved reliability of rail services including the following Government funded activities:
  - Substantial progress on the redevelopment of our Hillside mechanical facility and associated wagon assembly infrastructure; 2022/23 saw construction contracts signed, piling completed, steel structure and roofing erected and cladding of the mechanical facility and new office building commenced. The 2023/24 year will see construction at Hillside largely completed and the wagon assembly facility begin production of locally-assembled wagons
  - Continued construction of our Waltham mechanical hub in Christchurch, where foundations and steel structure have been completed, and the building is fully roofed and enclosed. Rail yard and interior fit out of the facility will see the mechanical facility completed mid-2024
  - Significant upgrades at our Hutt Workshops, including completion of a state-of-the-art automated wheel shop, bringing automation expertise in-house and improving the condition of our locomotive and wagon wheel sets
  - Preparatory work to improve mechanical facilities in Mt Maunganui
- Receiving a designation for the planned Central North Island freight hub near Palmerston North
- A multi-year seismic and deferred maintenance programme at the Wellington Railway Station.

Outcomes and benefits

KiwiRail's property team manages a portfolio of 200 leased buildings and 710 operational buildings used and occupied by KiwiRail staff.

We continued to deliver on our property portfolio long-term asset management plans and facilities management strategy, underpinned by up-to-date condition assessments. We have also developed a five-year capital plan for the staged improvement of this portfolio, with the second year of this work delivered. This included the new Middleton development in Christchurch, full refurbishments of the Learning & Development centre in Toop Street and Pukeko Street mechanical depot. We also completed medium-sized fitouts for Taihape and Crawford Street depots and an HVAC upgrade and roof replacement for the Kaiwharawhara depot. A deferred maintenance and seismic remediation programme is also underway to upgrade the Wellington Railway Station with five out of seven stages completed. These programmes will reduce operating costs and improve working conditions for all our staff.

Renewing mechanical facilities enables KiwiRail to deliver its services with greater reliability and resilience. As an example, work carried out in the Hutt Workshops

The opening of the new Train Control centre in Upper Hutt in May was marked by the unveiling of the carving Te Kupenga Arorangi by Dunedin-based artist Alex Whitaker.

The name of the carving refers to the knowledge of celestial navigation, and the way the stars operate as a network or kupenga (fishing net). This in turn reflects the vast networks of communication required to keep all parts of our rail network operational and functioning as one. This is one half of this carving, with the other half set to take pride of place at the new Auckland Train Control centre, opening in 2024.

Te Kupenga Mahi worked alongside the project team to contribute to the design of the new centre, and also to develop dual-language signage for the building, in English and te reo Māori.

From left, Chair David McLean, Chief Executive Peter Reidy, Te Kupenga Mahi member Francis Raihania and Alex Whitaker.

reduces seismic risk and improves the working environment (including heat, lighting and amenity), while the Hillside Redevelopment Programme delivers similar outcomes alongside environmental improvements and better resilience against flooding.

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

We are undertaking a multi-year programme to document and inspect all level crossings within the portfolio. We want to reduce fatalities at level crossings, and ensuring that crossings are accurately documented and maintained is key in managing this risk.This private level crossing programme is now 49 per cent complete with a further 25 per cent being processed. Since 2019/20, a total of 687 new agreements have been put in place. Public level crossings are also being documented with a global agreement. Two per cent of Local Authorities have agreements in place for public level crossings, with another 11 per cent in process and additional discussions beginning.

Outlook

Following engagement with iwi to confirm that their rights to first refusal on railway land will remain in place, KiwiRail is proposing to extend the core lease on railway land from 2070 to 2170. This will enable long-term development of railway property for the benefit of KiwiRail and future partners, including iwi. The engagement process has opened positive discussions about future developments with iwi. A decision to vary involves the directors of KiwiRail, NZRC and shareholding Ministers.

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

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

KiwiRail's Auckland head office moved into the Millennium Centre in Ellerslie bringing staff closer to our Southdown operational site.

Below Rail network

The second year of the Rail Network Investment Programme supporting freight and passengers, major upgrades in Auckland and Wellington, unexpected hurdles with weather, and a scheduling error by KiwiRail which required prompt resolution.

What we do

Operations at a glance

People and assets

KiwiRail maintains more than 3700 km of mainline rail infrastructure nationwide, including the Auckland and Wellington metropolitan areas, and 900km of yard track. We are delivering a resilient and reliable national rail network through the Rail Network Investment Programme, and separately-funded projects such as the Auckland and Wellington metropolitan upgrades.

The focus for our role as network provider sits squarely with the people who use and rely on the network. These are Aucklanders and Wellingtonians on the metro networks with tens of millions of journeys each year, New Zealanders and their businesses whose goods get to market through rail freight, Waikato and Manawatū residents on Te Huia and Capital Connection, and tourists on our Great Journeys New Zealand services and heritage rail operators. When the network performs, these people benefit, and New Zealand benefits through reduced congestion, avoided emissions from using rail over road, lower road maintenance and improved safety.

1,433 staff are dedicated to maintaining and improving the reliability and resilience of the rail network, including 149 trainees and apprentices.

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

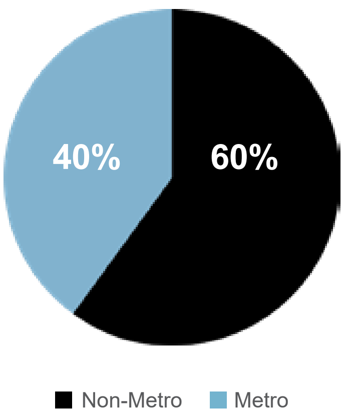
The work requires access to the track, which must be balanced with freight and passenger access requirements. We use specialised rail equipment, including tampers, work trains, ballast and rail wagons, which allows us to keep disruption to freight and passenger flows to a minimum.

KiwiRail knows that public transport must be reliable to be used, and we set high targets for ourselves to perform as network provider to support this reliability. The scheduling error with the EM80 in Wellington saw three days of avoidable disruption, which we deeply regret. We have corrected our systems to prevent this happening again.

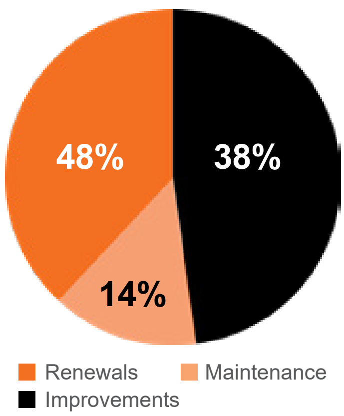
Investment programme

The Government has made significant investments to revitalise rail in New Zealand. These investments in KiwiRail's Below Rail assets have been made from

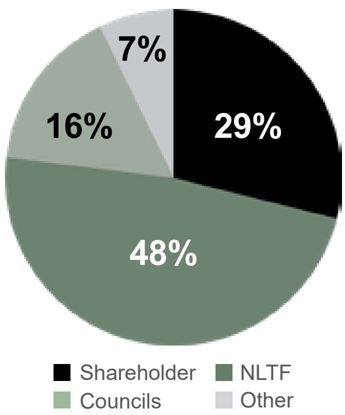
FY23 Below Rail Spend by Business Segment



FY23 Below Rail Spend by Type[1]



FY23 Below Rail Spend by Funding Source[2]



1. Renewals and Improvements include $27m relating to the recovery following the severe Auckland Anniversary weekend and Cyclone Gabrielle weather events. This is predominantly in Northland and Hawke's Bay.
2. In 2022/23 funding of $223 million received from the NLTF, regional and local authorities (Councils) and third parties is recognised as external revenue and offsets maintenance expenditure for financial reporting purposes.
Other Funding Source comprises funding for CRL-related works received from CRL Ltd and Ministry of Transport, and Northland spend funded by Kānoa.

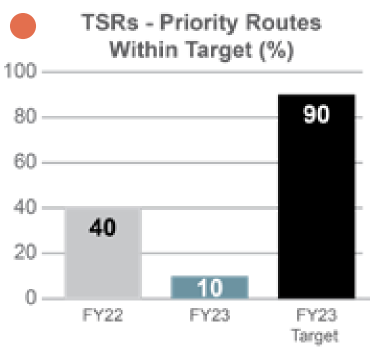
the National Land Transport Fund, New Zealand Upgrade Programme, Kānoa projects, Crown Infrastructure Partners projects and Budget appropriations.

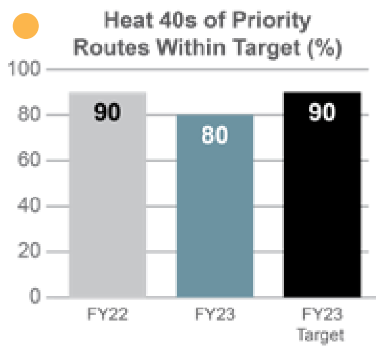
In addition to the funding from central government, Auckland Transport and Greater Wellington Regional Council contribute to the maintenance and renewal costs of the rail infrastructure used for metro services and improvement projects under Network Access Agreements. These contributions are important but considerably less than the Government's overall investment in rail. A recent independent review found the annual investment in day-to-day maintenance and renewals of metropolitan lines needs to increase by $20 million to $30 million per annum.

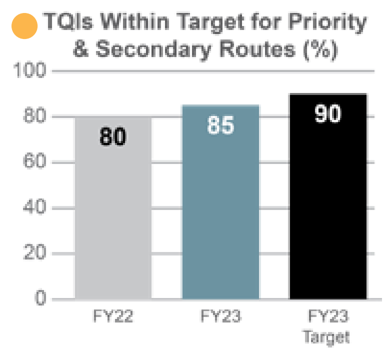
Our 2022/23 Below Rail operating expenses and capital expenditure of $0.9 billion is evidence of our continued focus on renewing and improving our rail network for both non-metro customers and metro passengers.

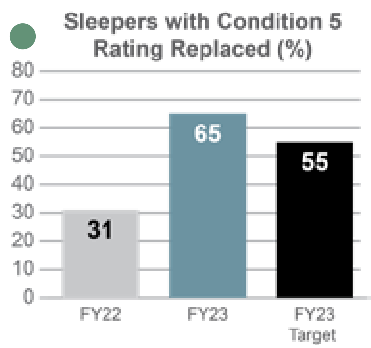
What we did – our performance

Rail network (freight and passenger)





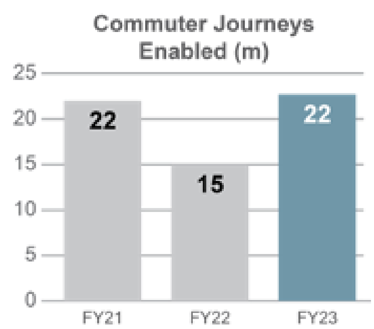


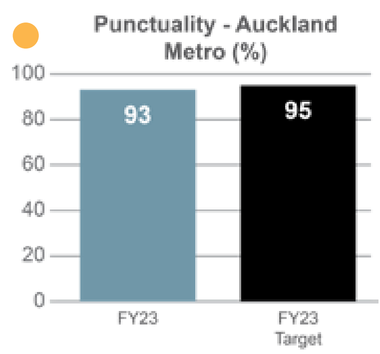


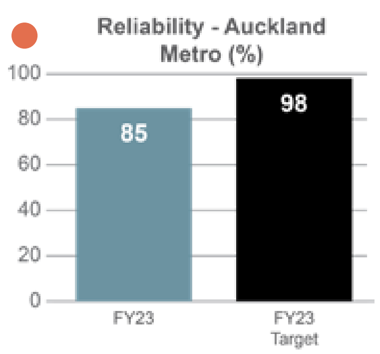
Key

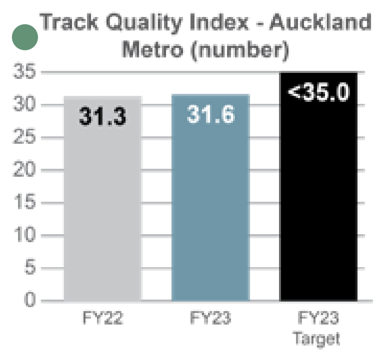
- Achieved target performance
- Within 10 per cent of target
- Below 10 per cent of target

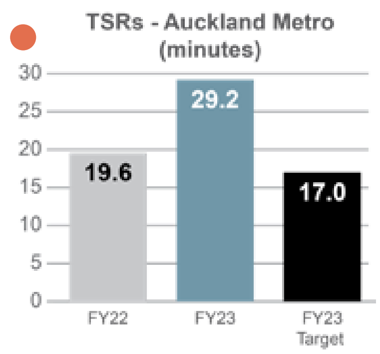
Auckland and Wellington metro

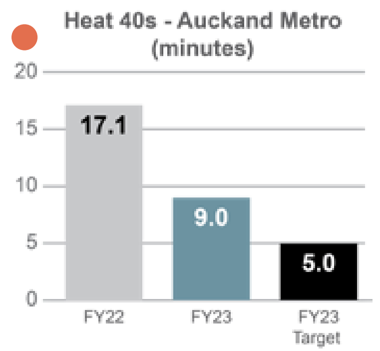


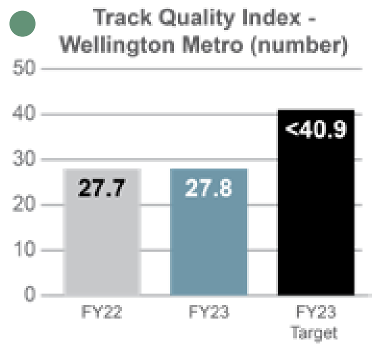


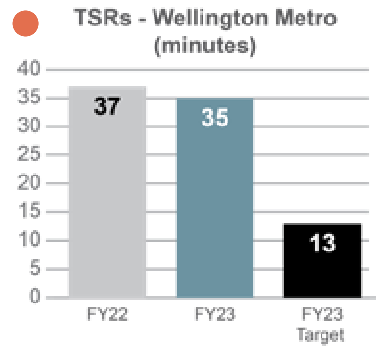


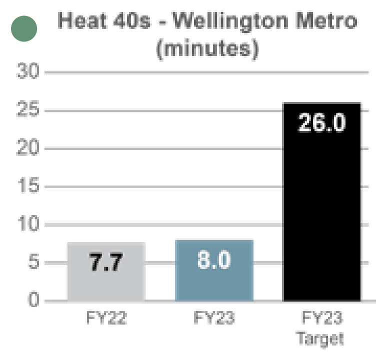


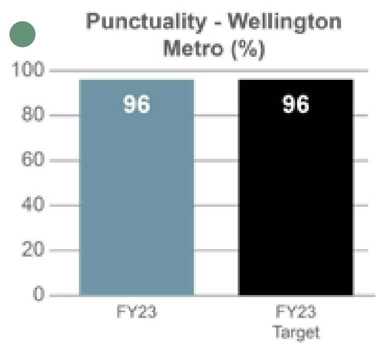


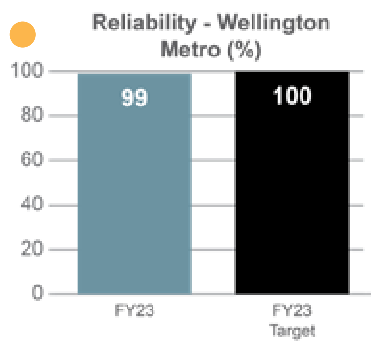












The above measures and targets were introduced as part of the Rail Network Investment Programme which commenced on 1 July 2021.

Temporary Speed Restrictions (TSRs) are placed on sections of track to restrict speed due to its condition or while upgrades are taking place. KiwiRail has set an acceptable level of TSRs on each route, depending on route-specific factors, such as traffic type and volume. KiwiRail's ability to achieve the TSR targets was constrained by availability of tampers (a specialised track machine) which are essential to complete works and remove the TSR. Four new tampers are on order.

KiwiRail's full Below Rail capital programme, including construction projects outside of RNIP (such as RNGIM and the Wellington Metro Upgrade Programme), has resulted in increased TSRs across the network, which were not factored into the targets set. Severe weather events have further impacted the network with TSRs put in place until remediation work is completed. KiwiRail is reprioritising the workbank to complete more rerail work that doesn't require tamping to minimise service impacts over the next year.

Heat 40s are TSRs that are placed on sections of rail in the warmer months to mitigate the risk of rail buckling. By de-stressing the continuously-welded rail, KiwiRail reduces the need for speed restrictions. KiwiRail missed the overall national target by one priority route. KiwiRail achieved the target in Wellington metro, however the target was not met in Auckland metro.

Track Quality Index (TQI) is a measure calculated by our EM80 track-inspection car and provides an indication of track quality. The TQI target was achieved in all of our priority routes including Auckland and Wellington metros, but not on three secondary routes. We expect this measure will improve over the next year.

Sleeper Condition 5 ratings indicate that the sleeper no longer meets network performance standards and requires replacement. KiwiRail exceeded the annual target, completing more sleeper renewals than planned.

Punctuality measures the percentage of services that are delivered without network issues as an indicator of the network's on-time performance impacts. KiwiRail met the overall target for Wellington metro. The target was not met in Auckland metro.

Reliability measures the percentage of services that were completed against services planned. This was not met in Wellington metro due to the three days of disruption from the EM80 scheduling error. In Auckland, the target was not met as KiwiRail and AT agreed to cancel a number of services to deliver the Rail Network Rebuild.

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

Outcomes and benefits

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

Rail Network Investment Programme

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

KiwiRail spent $455 million during 2022/23, which was year two of the three-year RNIP programme. This compares to the forecast spend of $469 million included in the RNIP (excluding the Weather Events Recovery funding).

Rail network activity class

The benefits of a longer-term funding framework are now being seen with a strong improvement in delivery of the renewals programme. Our track renewals are ahead of target.

Supply chain disruptions were not as pronounced this year, but the disruptions from the extreme weather events (Auckland Anniversary weekend floods and Cyclone Gabrielle) significantly impacted the programme. The extreme weather events caused major disruptions over six months of the financial year and required reallocation of finite resources, such as engineering. The diversion of resources away from planned works and the large scale of works outside of RNIP have significantly impacted our ability to maintain some KPIs, particularly TSRs.

KiwiRail is also responding to the challenges facing the wider construction industry, including cost escalation, resource availability and shortages of materials.

In response to the Auckland Anniversary and Cyclone Gabrielle severe weather events, the Government approved $40m of funding for rail reinstatement. Good progress has been made, with $27.0m spent in 2022/23. Further funding has been committed by the Government to KiwiRail, in addition to expected insurance proceeds, to carry out what is a significant programme of recovery.

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

In May 2023, the Wellington metropolitan network faced significant disruption on the back of temporary speed restrictions that were put in place on the Kāpiti line. This happened because we did not schedule our track evaluation car to do its four-monthly check on time. We let Wellingtonians down. We took full accountability for the scheduling error, and for resolving the matter within days and not weeks as initially communicated. KiwiRail has established new processes and procedures to prevent this error, which had never happened in the 41 years the car has operated, from happening again.

Public transport infrastructure activity class

Eight public transport infrastructure projects are now underway through the RNIP that will enable future passenger growth in the Auckland and Wellington metro networks. The $151 million investment includes:

- An additional traction feed in West Auckland to support the increase in services with CRL (City Rail Link). This project is now in the implementation phase
- The Auckland Integrated Rail Management Centre project enabling co-location and integrated operations of multiple rail organisations. Construction is underway and expected to be completed in early 2024
- Installation of additional signals to improve resilience and reliability on the Auckland metro network. Implementation will commence in 2023/24
- Fencing to improve safety and security of the rail corridor
- Strategic future planning for Auckland's longer-term 30-year programme business case. This is planned to be completed in 2023/24
- Initiating an investigation into the next phase of electronic train control for Auckland. This will commence in 2023/24
- A detailed business case for European Train Control System, which provides automatic train protection, for the Wellington metro network has now commenced
- A business case investigating the below rail investment needed for further northwards expansion of the Wellington metro network has now been completed.

Rail Network Investment Programme Measures

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

Outcome measures	Metric	Target	RAG	Status
KiwiRail outcomes				
Grow volumes on rail	Mode share (% based on tonnes)	Rail mode share estimated to increase from 12% in 2020 to 14% total freight task by 2030		On target
Improved KiwiRail commercial performance	Above Rail operating surplus Above Rail operating surplus ratio	As per KiwiRail Statement of Corporate Intent		See Performance Reporting section (Page 57-58)
Avoided emissions and harmful pollutants	Reduced emissions/harmful pollutants	Increase from 236kT CO_2e emissions avoided p.a. to 306kT p.a. by 2030		On target with 270kT of CO_2e emissions avoided
Improve value of rail	Value of Rail ($)	Increase from $1.7b in 2020 to $3.5b by 2030		Measured tri-annually to support the Rail Plan and GPS development
Asset and Service Level Measures				
All temporary speed restrictions (average TSRs) within target for priority routes	100% within target (s)	June 2024		Not achieved due to tamper availability which is required to complete works and remove the TSR. Four new tampers to address this issue are on order
All temporary speed restrictions (average TSRs) stabilised for secondary routes	100% within target (s)	June 2024		Not achieved due to tamper availability which is required to complete works and remove the TSR. Four new tampers to address this issue are on order
All Heat 40s (average Heat 40s) within target (s) for priority routes	100% within target (s)	June 2024		Achieved 80% against a target of 90%
All Heat 40s (average Heat 40s) stabilised for secondary routes	100% within target (s)	June 2024		Achieved 100%.

Key

- Achieved target performance
- Within 10 per cent of target
- Below 10 per cent of target
- No change

Outcome measures	Metric	Target	RAG	Status
Mainline derailments due to infrastructure defects	Number of derailments less than 5 average p.a.	Period to June 2024		Two derailments
Mainline derailments due to infrastructure defects	Number of derailments nil p.a.	June 2031		On-track - see above
Track Quality Index (average TQI) within target (s) for priority and secondary routes	100% within target (s)	June 2024		TQI was achieved in all our priority routes, but not on three secondary routes. Current performance is 85%
Sleeper condition on priority routes	100% of condition 5 sleepers addressed*	June 2024		KiwiRail delivered a 65% completion against a target of 55%
Sleeper condition on secondary routes	100% of condition 5 sleepers addressed*	June 2031		KiwiRail's focus has remained on priority routes, given delivery constraints. KiwiRail delivered 57% completion against a target of 67%
Rail condition non-destructive testing (NDT) fault/defects on priority routes	<6 per km	June 2024		Majority of priority routes achieved the first-year target, however one route detected NDTs of >6
Rail condition NDT fault/ defects on secondary routes	<6 per km	June 2031		On target
Rail condition on priority routes	100% of condition 5 rail addressed	June 2024		Achieved 84% against a target of 67%
Rail condition on secondary routes	100% of condition 5 rail addressed	June 2031		Achieved 73% against a target of 67%
Unplanned infrastructure outages (total minutes across services) by priority route	Improving trend	2022-2031		On track
Structures risk reduction	Priority structures delivered to plan	June 2024		Behind, due to delays with consenting, iwi liaison, and weather event related disruptions
Structures condition (Structures Health Index)	Improving trend	June 2031		No change
Network congestion assessment	Completed	June 2023		Completed

Key

Achieved target performance
Within 10 per cent of target
Below 10 per cent of target
No change

Outcome measures	Metric	Target	RAG	Status
Number of level crossings in service	Decreasing number of level crossings	June 2024		On track. There are five less level crossings than the start of the RNIP period
Yard asset improvement business case	Completed	June 2023		This business case is near completion
Resilience improvement business case	Completed	June 2023		This business case is near completion
Long Term Network Planning				
Deliver long term 30-year network development plan	Completed	June 2024		The 30-year network plan is on track
Asset Management and Data Quality				
Asset Management Gap Analysis and Development of Asset Management Improvement Road Map to align with ISO55001	Completed	June 2022		Completed - The Asset Management Gap Analysis and Improvement Road Map have been completed and shared with Waka Kotahi
Development of asset class strategies and updated Strategic Asset Management Plan	Completed	June 2022		The Strategic Asset Management Plan has been completed. Asset class strategies have been completed.
Updated AMP to support the next RNIP and investment programme	Completed	June 2023		Delayed. The updated Asset Management Plan work is underway and will be completed in 2023/24
Data Quality Gap Analysis and development of data quality improvement road map	Completed	June 2022		Data quality roadmap and data quality improvements are complete
Updated condition records (currency and completeness) for critical asset classes	Completed	June 2022		Completed for track assets. The average age of track condition records continue to be updated with the average age stabilised at around 2 years. Data improvements have been made for level crossing alarms, points motors and signal assets.
Updated condition records (currency and completeness) for remaining asset classes	Completed	June 2024 (subject to road map)		On track. Updating of conditions records is in progress as part of the next RNIP.

Key

- Achieved target performance
- Within 10 per cent of target
- Below 10 per cent of target
- No change

Substantial investment on the network continues, including on the overhead used to power the commuter units to make sure it is resilient and delivers for passengers.

New Zealand Upgrade Programme

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

- Papakura to Pukekohe Electrification project – $419 million to electrify 19km between Papakura and Pukekohe, including installation of overhead equipment, a new traction power feed and signalling upgrades. $107 million of the project was delivered during the year, with main works expected to be completed in 2024. Open route construction started during 2022/23.
- Wiri to Quay Park (W2QP) – $318 million to provide a third rail line to ease the bottleneck between Wiri and Westfield, increase capacity around Westfield Junction and segregate freight and commuter traffic between Port of Auckland and Quay Park. $73 million delivered during the year. The installation of track for the third main line is complete. However, notice of requirement and consents relating to Middlemore Station are still outstanding. Completion is expected in 2024/25.
- Drury Rail Stations – $569 million to construct three new passenger rail stations, at Drury Central, Drury West and Paerātā, and the associated bus interchange, park and ride facilities and connector roads. $33 million of works delivered during the year. Completion for Drury Central and Paerātā is expected in 2025/26. 90 per cent design for these two stations is complete. The judicial review into the location of Drury West (Ngākōroa Station) concluded in July 2023 with the judgement finding in favour of KiwiRail. Planning for the station is due to recommence and, once complete, the delivery date for this station will be confirmed.
- Wellington Metro Upgrade Programme – $115 million to enable a safe and reliable increase in the frequency of train services at Wellington Railway Station, and $129 million for infrastructure upgrades to the Wairarapa Line to increase capacity and support a planned increase in the frequency of passenger services. $19 million of works delivered during the year, with both projects expected to be completed in 2025/26. Public consultation for proposed level crossing closures on Wairarapa line has commenced and detailed design of Wellington station improvements is nearly complete.

Northland Package – the Government announced its $692 million Northland Package in June 2021 for rail works and SH1 roading improvements. The rail components are:

- Marsden Point Rail Link - following completion of the draft business case in August 2022, KiwiRail is now proceeding with detailed design which is expected to be complete in 2024/25.
- Whangārei to Otiria rail upgrades to 18-tonne axle load and system improvements. The project commenced in early 2022. $24 million of works delivered during the year. The project has been impacted by Cyclone Gabrielle with resources prioritised to flood and weather event-related remediation priority works. Completion is now expected mid-2025.

Metropolitan Rail Network Upgrade Programmes

Auckland metro growth, remediation, and City Rail Link readiness.

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

- Delivering the Rail Network Growth Impact Management programme to prepare for the increased services once the City Rail Link opens and ensure the Auckland metro network is keeping pace with patronage and freight growth. (58 per cent complete, $76 million delivered during the year, with completion expected by 2025/26).
- Progressing the Auckland remediation programme to address the issue of rolling contact fatigue (RCF), a type of wear and tear that occurs on rail. RCF has become increasingly prevalent with higher traffic volumes. (76 per cent complete, $12 million delivered during the year, with completion expected by 2023/24).
- Undertaking Be Ready contract work to support City Rail Link Limited in the completion of the City Rail Link (74 per cent complete, $43 million delivered during the year with completion expected by 2024/25).

Wellington Metro growth and remediation.

In addition to the NZUP projects above, we have completed the remediation of the traction overhead lines during the year. A further business case for substation renewals and upgrades was completed and submitted to Waka Kotahi for review. Remutaka Tunnel track renewal tender process and elimination of remaining timber bridge structures is progressing well.

Kānoa

Northland line: KiwiRail completed its final milestone of upgrading the line between Auckland and Whangārei to allow it to take a standard 18-tonne axle locomotive.

Investment programme summary

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

Programme	Encompasses	($m) 2022/23 Spend	($M) Total Programme value	Funded by
Rail Network Investment Programme	Rail network activity class • Network maintenance and operations management • Network renewals • Network improvements • Weather events recovery Public transport infrastructure activity class • Auckland metro – improvements • Wellington metro – improvements • Control systems	455	5,113[1]	NLTF, Track User Charge
Northland	• Upgrades to rail line between Swanson and Otiria • Land purchase for the Marsden Point Rail Link • Design and business case for the Marsden Point Rail Link	39	713	NZUP, Kānoa
Auckland metro area	• Wiri to Quay Park • Papakura to Pukekohe electrification • Drury Rail Stations • City Rail Link readiness • General network enhancement	345	1,839	NZUP, Ministry of Transport, NLTF
Wellington metro area	• Track overhead line replacement • Network renewals • Trentham to Upper Hutt double tracking • Plimmerton turn back and new platform • Wellington approach realignment and safety improvements • Wairarapa passing infrastructure, platforms and signalling	84	707	NLTF, NZUP
Rolling stock	• Locomotive and shunt replacement • Wagon replacement Train safety enhancement • EF locomotive fleet refurbishment • Capital Connection and Scenic carriage refurbishment	153	1,786	Shareholder, NZUP, Kānoa
Mechanical facilities	• Mechanical facility and depot upgrades at Woburn, Waltham, and Hillside. • Other miscellaneous depot upgrades	81	313	Shareholder, Crown Investment Partners, Kānoa

Programme	Encompasses	($m) 2022/23 Spend	($M) Total Programme value	Funded by
New ferries and terminals	• Two large rail-enabled ferries • New port and terminal facilities in Wellington and Picton	132	1,450[2]	Shareholder, KiwiRail, Port Marlborough New Zealand, CentrePort Limited
Resilience works	• Omoto slope stability • Culvert and drainage upgrades	Completed in 2021/22	39	Kānoa, Crown Investment Partners
Freight hubs	• Land purchase for the Central North Island freight hub • Ashburton freight hub	6	45	Kānoa, NZUP
Total		**1,296**	**12,005[3]**	

1. 2021/22 to 2030/31 ten-year approved RNIP programme and committed recovery funding excluding insurance recoveries.
2. The total project value for the new ferries and terminals is currently under review.
3. The total project value includes $2.6bn of unfunded RNIP-related programmes.

Maintaining KiwiRail's fleet is a priority to ensure it is able to deliver the reliability our customers are seeking.

Board of Directors

David McLean
Chair

Attendance[1]:
11/11 meetings

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

Sue McCormack
Deputy Chair

Attendance[1]:
10/11 meetings

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

Rachel Pinn
Director

Attendance[1]:
11/11 meetings

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

Rachel is the Chairperson of the Tauranga Budget Advisory Service, on the Bay of Plenty Department of Conservation Board and a member of Tauranga City Council's Heart of the City technical advisory group. Rachel is a full member of the New Zealand Planning Institute and has a master's degree in transport studies.

Bruce Wattie
Director

Attendance[1]:
11/11 meetings

Bruce was appointed to the KiwiRail Board in March 2020. He has been specialising in providing corporate finance advice and assistance to clients since 1985. He was a partner with PricewaterhouseCoopers (PwC) for 25 years and continues to provide a diverse range of commercial and financial advice to both the private and public sectors. Bruce is a director of the New Zealand Institute of Economic Research.

Bruce's technical specialisations include large-scale infrastructure procurement processes, infrastructure financing, financial analysis, capital structuring, business case development, economic regulation, business and share valuations, and cost of capital.

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

1. Four short off-cycle meetings not included.

Maryan Street
Director

Attendance[1]:
11/11 meetings

Maryan was appointed to the KiwiRail Board in July 2022. She has previously served on the Board of Housing NZ (2000-2005), including a period as Deputy Chair; as an establishment and then permanent member of the Centre for Housing Research Aotearoa/NZ; and as a government member of the Crown Forestry Rental Trust (2001-2005).

She was the President of the New Zealand Labour Party from 1993-95. Before becoming a Member of Parliament in 2005, Maryan was a teacher, a union official, an academic and an industrial relations practitioner. She was Minister of Housing and of ACC, and Associate Minister of Tertiary Education and Economic Development in the fifth Labour Government (2007-2008).

She has a BA (Hons) in English from Victoria University of Wellington and a Master of Philosophy with First Class Honours in Industrial Relations from Auckland University. She also has an AMusTCL in music theory.

Ed Sims
Director

Attendance[1]:
6/6 meetings

Ed Sims has almost 40 years' experience in aviation, logistics, transportation, and wholesale and retail industries, spanning the private and public sectors of the UK, Australia, Canada and New Zealand.

He has extensive transformation experience, notably within Air New Zealand where he was responsible for the international airline.

Ed was appointed CEO of SOE Airways in 2011, managing the organisation responsible for New Zealand's air traffic control. In 2017 he joined WestJet, Canada's second largest airline, and drove the largest private equity deal in aviation history with the sale of WestJet to Onex for $5.5bn CAD in late 2019.

Over the past decade, his board and governance experience has included the New Zealand Police, the office of the NZ Auditor-General, the Canadian Business Council and as Global Chair of CANSO, the Civil Air Navigation Services Organisation.

Rob Jager ONZM
Director

Attendance[1]:
6/6 meetings

Rob has extensive executive, industry and board experience following a career of more than 43 years with Shell in a variety of executive roles, including Chairman and Vice President of the Shell Companies in New Zealand. Rob also served as an independent non-executive director of Air New Zealand for nearly nine years, including as chair of the Board health, safety and security committee.

He chaired the independent taskforce on Workplace Health and Safety for the New Zealand Government, which has been instrumental in encouraging fundamental changes to New Zealand's approach to workplace health and safety.

In 2018, Rob was awarded an Officer of New Zealand Order of Merit (ONZM) for his services to business and health and safety. During his career, Rob chaired the Petroleum Exploration and Production Association of NZ as well as the Business Leaders' Health and Safety Forum.

Liz Ward
Director

Attendance[1]:
2/2 meetings

Liz has extensive operational, contracting and commercial expertise gained across a diverse range of industries including large-scale infrastructure, transport, fisheries and telecommunications. She has more than 30 years' experience as a CEO, senior executive and strategic advisor across these sectors.

Liz has held CEO roles with Gough Group, Kennards Hire and CentrePort Ltd and is an experienced company director, spanning government, privately-owned and regulated entities such as NSW Telco Authority and Moana (formerly Aotearoa Fisheries Ltd).

She has an MBA and is currently a non-executive director of Service Stream Ltd, Ritchies Transport Holdings Ltd and Guide Dogs NSW/ACT.

Former Directors
The terms of former directors Maxine Moana-Tuwhangai and Mike Williams ended on 31 October 2022 and 31 July 2023 respectively.

KiwiRail Executive

Peter Reidy

Chief Executive

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

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

Alastair Cumming

Chief Zero Harm Officer

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

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

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

David Gordon

Chief Capital Planning and Asset Development Officer

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

Andrew Norton

Chief People and Communications Officer

Andrew returned to KiwiRail in 2023, following a two-year secondment within the Department of Prime Minister and Cabinet. 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.

Vanessa Oakley

Chief General Counsel, Company Secretary and Property Officer

Vanessa joined KiwiRail in August 2023 as Chief General Counsel, Company Secretary and Property Officer. Vanessa brings extensive executive leadership experience in roles at Chorus NZ, the Accident Compensation Corporation and with global wealth management company FNZ, along with 11 years in various public sector and regulatory organisations in New Zealand and the United Kingdom.

Craig Rice

Acting Chief Financial Officer

Craig has been KiwiRail's Chief Financial Officer (Acting) since March 2023. He is responsible for the Company's Finance and ICT functions. Craig was a partner with PwC for 25 years, including 11 years on the company's leadership team in various roles including National Consulting Leader, Auckland Managing Partner and Strategy & Investments Leader. Over the course of his career, he has provided strategic, valuation, transaction and commercial advice to numerous clients in the transport, infrastructure and utilities sectors.

Craig holds Commerce and Law degrees from the University of Auckland and is a chartered accountant with Chartered Accountants Australia and New Zealand. He has completed the International Business Programme at Harvard Business School, Boston USA and the Advanced Leadership Programme at the University of Oxford, England. Craig is also a member of the Institute of Finance Professionals New Zealand Inc, and a Fellow of Governance New Zealand Inc.

Jason Dale will be commencing as Chief Financial Officer 2 October 2023.

Helen Rogers

Chief Strategy and Sustainability Officer

Helen leads KiwiRail's strategy and sustainability functions, and collaboration with government on transport policy and investment. She has worked in senior finance, strategy and investment roles for KiwiRail for the past 9 years.

Helen is a Chartered Accountant with over 25 years experience leading finance teams across local government and the wider public sector. Prior to KiwiRail Helen spent 5 years working as an independent consultant within the public sector with a focus on leading finance transformation, after an earlier career as a Senior Finance Manager at Wellington City Council and an Audit Manager at Audit New Zealand.

She is a champion for diversity and inclusion, as a member of Global Women, Executive Sponsor for the KiwiRail women's network and Chair of the Diversity & Inclusion Committee.

KiwiRail Executive

Siva Sivapakkiam

Chief Operations Officer

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

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

David Warburton

iReX Programme Director

David is the iReX Programme Director which includes building two new ships and constructing new ferry terminals in Wellington and Picton. David took up the role of leading this large complex infrastructure project in Q4 2022. David's prior roles have included Chief Executive of Auckland Transport, Chief Executive of Downer's Consulting Division in Australasia and Chief Executive of Whanganui District Council. David brings vast business transformation experience to the iReX role, as well as his engineering experience with a Doctorate in Environmental Engineering.

Adele Wilson

Chief Customer and Growth Officer

Adele joined KiwiRail in August 2023 in the new role of Chief Customer and Growth Officer. Adele is an experienced senior leader who for the past six years has been head of the export business unit for Fonterra Brands New Zealand. Prior to that, she was global General Counsel for Fonterra's consumer and foodservice business and has held roles in top tier law firms in New Zealand and the United Kingdom.

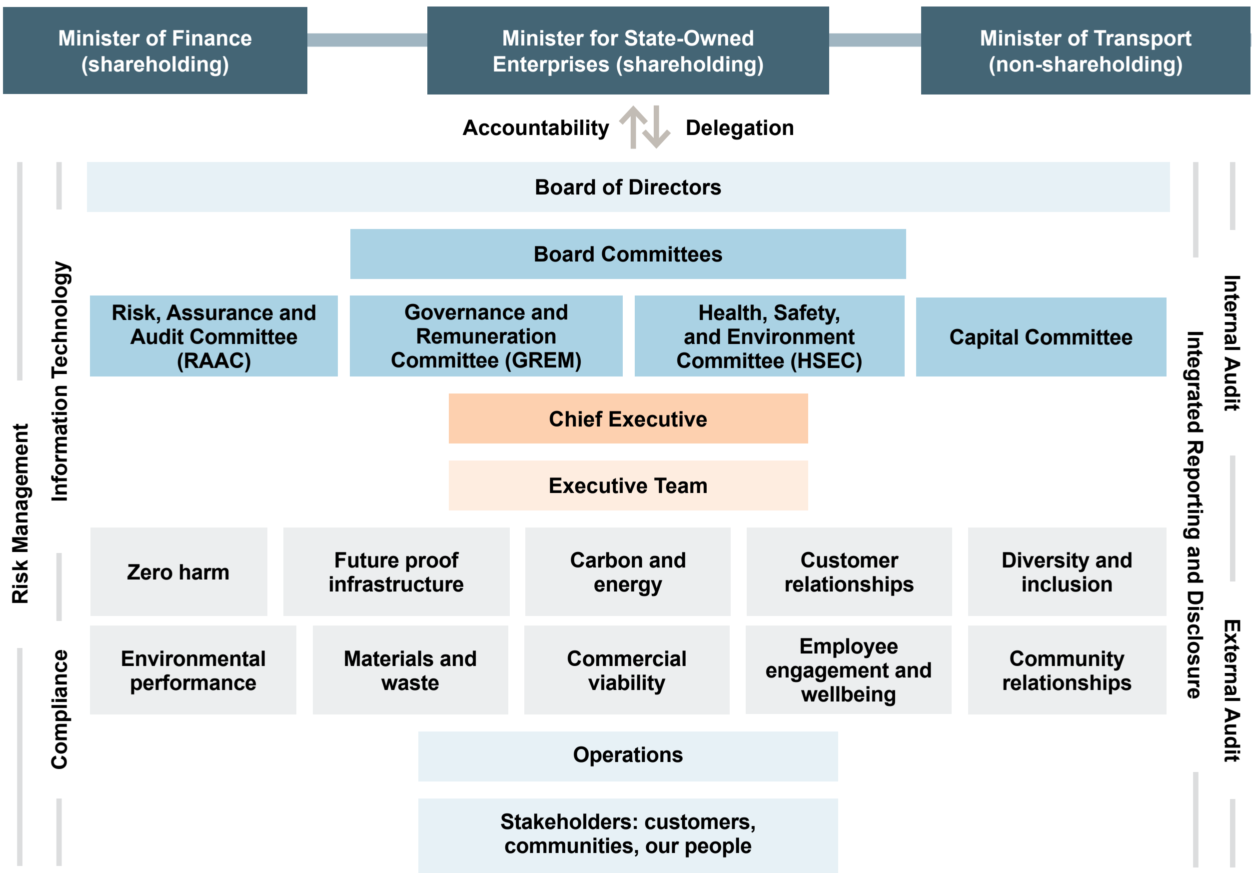
How we are governed

The Board of Directors of KiwiRail is appointed by the Shareholding Ministers and is accountable to the Shareholding Ministers for the performance of KiwiRail. The Shareholding Ministers may jointly remove directors at any time and entirely at their discretion.

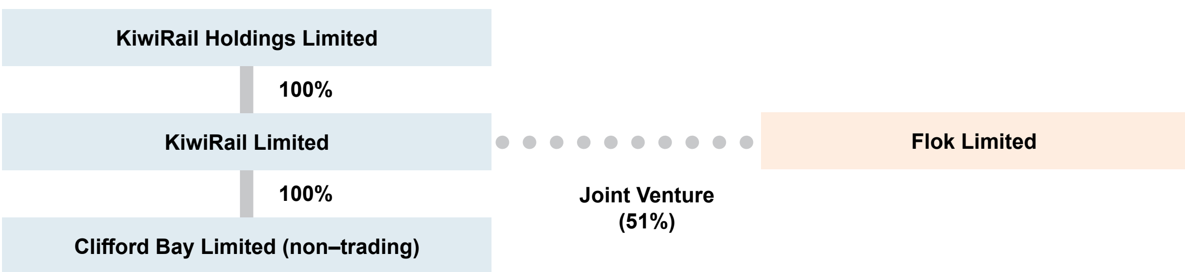
The expectations of the Shareholding Ministers for the governance of KiwiRail are communicated at least annually to the Board via the Letter of Expectations and set out in the Owner's Expectation document which is administered by the Treasury.

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

Accountability



Subsidiary structure



Commercial mandate

KiwiRail Holdings Limited is a limited liability company incorporated under the Companies Act 1993 and a state-owned enterprise (SOE) under the State-Owned Enterprises Act 1986. As an SOE, all KiwiRail's shares are held by Shareholding Ministers of the Crown. They are held in equal proportions by the Minister of Finance and the Minister for State Owned Enterprises. The principal objective of every SOE is to operate as a successful business and, to this end, to be as profitable and efficient as comparable businesses that are not owned by the Crown. SOEs are also required to be good employers and to exhibit a sense of social responsibility. During the financial year ended 30 June 2023 the Group comprised KiwiRail Holdings Limited, and its subsidiaries as detailed in the diagram on the previous page.

Rail network mandate

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

Board Committees

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

Risk, Assurance and Audit Committee (RAAC)

2022/23 members: Bruce Wattie (Chair), Maxine Moana-Tuwhangai, Rachel Pinn, Maryan Street

Current members: Bruce Wattie (Chair), David McLean, Rachel Pinn

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)

2022/23 members: David McLean (Chair), Sue McCormack, Mike Williams

Current members: David McLean (Chair), Sue McCormack, Ed Sims, Maryan Street

Assists the Board in establishing remuneration strategies and policies for the Chief Executive and his direct reports that support an increase in productivity and the retention of staff. Also assists the Chair and the Board to consider the performance and skillset of the Board.

Health, Safety and Environment Committee (HSEC)

2022/23 members: Sue McCormack (Chair), Rachel Pinn, Maryan Street

Current members: Sue McCormack (Chair), Rachel Pinn, Maryan Street, Rob Jager, Liz Ward

Assists the Board to suitably govern KiwiRail's management and control of safety, health and environment performance and compliance and to assist the Company directors and officers to meet their due diligence obligations under relevant laws.

Capital Committee

2022/23 members: Bruce Wattie (Acting Chair), Maxine Moana-Tuwhangai, Mike Williams

Current members: Ed Sims (Chair), Rob Jager, Liz Ward, Bruce Wattie

Assists the Board with the prioritisation of capital expenditure, delivery and financial performance of capital expenditure programmes, and the assurance system over the capital expenditure programmes.

Engagement with Government

The Board is committed to ensuring that the Shareholding Ministers are informed of all major issues and developments affecting the company. Such information is communicated in various ways including Annual/Integrated reports, half yearly reports, continuous disclosure statements, and regular briefings and updates. We are also continuing to enhance our engagement with government agency stakeholders as we progress our strategic capital investment programme, including Waka Kotahi, the Ministry of Transport, Treasury and other monitoring and policy agencies as required.

Enterprise Risk Management Strategy

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

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

Insurance and indemnity

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

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

Directors' remuneration

Note 21 of the financial statements sets out the fees Directors earned during 2022/23.

Chief Executive's remuneration

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

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

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

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

Peter Reidy commenced as CE on 1 August 2022. David Gordon, Chief Operating Officer Capital Assets served as Acting CE until 31 July 2022. For performing the role of Acting CE, KiwiRail paid additional salary and benefits of $14,815 to David Gordon in 2022/23.

Short Term Incentive Scheme (STI)

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

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

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

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

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

Once the gateways for the STI have been met, payments are made based on the achievement of specified KPIs which, in the case of the CE, have been signed off by the GREM committee and in the case of senior executives have been signed off by the CE in consultation with the GREM Committee.

Chief Executive's remuneration (2022/23)

Financial Year	Salary and benefits[1]($)	Pay for performance ($)	Total remuneration ($)
2022/23	1,369,284	-	1,369,284

Five-year summary – Chief Executive's remuneration

Financial Year	Salary and benefits ($)	Pay for performance ($)	Total remuneration ($)
2022/23	1,369,284	-	1,369,284
2021/22	1,384,177[2]	420,000[3]	1,805,177
2020/21	997,452	-	997,452
2019/20	1,052,453	-	1,052,453
2018/19	1,042,350	218,453[4]	1,260,803

1. Actual salary paid includes holiday pay paid per New Zealand legislation. Benefits include KiwiSaver and 'sign-on' payment. Actual amounts are before tax (gross). This table excludes amounts paid to David Gordon for services as Acting Chief Executive. Refer to the separate disclosure above.
2. Salary and benefits paid in 2021/22 to previous CE for the period to his resignation effective 24 November 2021 plus contractually entitled six months' salary in lieu of notice and unused annual leave.
3. Pay for performance (STI) relates to previous CE's performance during 2020/21.
4. Pay for performance (STI) relates to former CE's (Peter Reidy) performance during 2017/18.

Employee remuneration

There were 2637 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 2023.

The number of people earning remuneration and benefits within bands of $10,000 above $100,000 per annum are below. This includes fixed remuneration, employee KiwiSaver contributions, settlement payments and redundancy payments for all permanent employees. It also includes short-term incentive payments made to eligible staff in accordance with KiwiRail's remuneration policies.

1360-1370	1
800-810	1
600-610	1
540-550	2
500-510	1
450-460	1
410-420	3
400-410	1
370-380	3
360-370	2
340-350	3
330-340	3
320-330	5
310-320	4
300-310	6
290-300	4
280-290	2
270-280	8

260-270	14
250-260	11
240-250	16
230-240	23
220-230	31
210-220	19
200-210	35
190-200	47
180-190	63
170-180	87
160-170	107
150-160	143
140-150	213
130-140	285
120-130	437
110-120	514
100-110	541

Total employees earning in excess of $100,000	2637
Employees who are included but who are no longer at KiwiRail as at 30 June 2023	134
Net total employees earning in excess of $100,000 and employed at KiwiRail as at 30 June 2023	2503

Performance reporting

Our Statement of Corporate Intent (SCI) includes a comprehensive set of key performance indicators (KPIs), that we use to assess our performance.

The KPIs below reflect the targets established in the 2023-2025 SCI. The Performance section of this annual report highlights KPIs which measure the performance and outcomes of our business units and network function.

Key performance indicators

	30 June 2023 Actual	30 June 2023 Target
Above Rail		
Revenue ($m)[1]	683	720-736
Rail Freight revenue ($m)[1]	402	438-446
Interislander Freight and Passenger revenue ($m)[1]	135	137-141
Scenic and Commuter revenue ($m)	34	31-35
Property revenue ($m)	63	58
Operating surplus ($m)	156.5	150-165
Operating margin (%)[2]	20	21-23
Freight Net Tonne Kilometres carried (million)	3,928	4,360
On-time performance – Freight Premier (%)	83	90
Reliability – Locomotive Mean Distance Between Failures (thousand kms)	48	55
On-time performance – Interislander – arrival within 15 mins of scheduled time (%)	83	88
Achievement of major separately funded milestones		
Number of Rolling Stock and iReX programme milestones completed	3 (43%)	7 (100%)
New assets delivered	221 new wagons in service, remainder in service by Aug 23 10 new DL locomotives delivered Hutt Wheelshop operational	356 new wagons in service 10 new locomotives and shunts Hutt Wheelshop operational
Below Rail		
Overall Track Quality Index (average TQI) for Auckland metro	31.6	35
Overall Track Quality Index (average TQI) for Wellington metro	27.8	40.9
Achievement of major separately-funded milestones and KPIs		
Number of NZUP programme milestones completed	1 (20%)	5 (100%)
New assets delivered	n/a	n/a
Number of Network Condition KPIs within target	7 (50%)	14 (100%)

1. Excludes Fuel Adjustment Factor and the $1.1m impact of non-recurring items
2. Operating Surplus (excluding the $1.1m impact of non-recurring items) divided by external revenue (including fuel adjustment factor)

Key performance indicators

	30 June 2023 Actual	30 June 2023 Target
Below Rail (continued)		
All temporary speed restrictions (average TSRs) within target(s) for priority routes	10% within target(s)	90% within target(s)
All Heat 40s (average Heat 40s) within target(s) for priority routes	80% within target(s)	90% within target(s)
Track Quality Index (average TQI) within target(s) for priority routes	100% within target(s)	95% within target(s)
KiwiRail Group		
Employee Net Promoter Score (number)[1]	n/a	5
Grow our younger employee demographic (% of total workforce under 30 years old)	17.8	18
Women in the workforce (%)	19.4	19
Total Recordable Injury Frequency Rate - TRIFR (number)	25.82	23
Safety, Health & Environment High Risk Events (number)	48	65
Rail Freight Carbon Intensity (grams of carbon dioxide equivalent emissions per net tonne kilometre)	27.16	26.2
Truck Avoidance (million)	1.06	1.24

Required information

	30 June 2023 Actual	30 June 2023 Target
Shareholder return measures		
Total shareholder return	n/a	n/a
Return on equity (%)	(41)	10
Profitability/efficiency measures		
Return on invested capital (%)	(44)	10
Operating margin – above rail (%)	20	21-23
Leverage/Solvency Measures		
Shareholder' funds to total assets (%)	72	86
Debt to EBITDA	(1.6)	(0.4)
Gearing ratio (%)	1	1
Interest cover	46.3	101.5
Growth measures		
Capital replacement	8.7	10.9
Revenue growth – above rail (%)	16	16
Underlying EBITDA growth – above rail (%)	18	32

1. The FY23 survey has been delayed due to operational priorities.

Vote Transport

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

Rail - Grants (M72) (A26)

This appropriation is limited to funding for KiwiRail Holdings Limited to undertake non-commercial activities, including public safety works and public policy rail initiatives.

This is a new multi-year appropriation established in 2022/23 to consolidate three existing rail appropriations into one appropriation relating to non-commercial rail activities.

Reasons for change in appropriation: This multi-year appropriation increased by $17.812 million to $126.968 million for 2022/23 due to:

- $10 million increase for KiwiRail to complete a detailed business case for electrification of the North Island Main Trunk line and the rail network between Auckland, Hamilton and Tauranga.
- $7.812 million fiscally-neutral adjustment to consolidate three existing rail appropriations into one appropriation relating to non-commercial rail activities.

	2023 Actual	2023 Budget	2023 Final budget
Amount of appropriation ($000)	30,624	56,749	41,884
Assessment of performance:			
Work is carried out on establishing a local wagon assembly plant in Dunedin in line with the agreed outcomes	Achieved		Achieved
Work is carried out on maintaining the existing electric locomotive fleet in line with the agreed outcomes	100%		100%
A safer railway system and public policy projects are carried out in line with the programme	Achieved		Achieved

Outcome of investment: The wagon assembly plant at Hillside, Dunedin, progressed to plan in FY23 and is expected to be ready for wagon assembly in FY24.

The three milestones relating to substations, first and second locomotives were achieved in relation to maintaining the existing electric locomotive fleet.

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

Rail - Maintenance and renewal of the rail network (M72) (A26)

This appropriation is limited to expenses incurred on the approved Rail Network Investment Programme.

This is a new multi-year appropriation established in 2022/23 to replace the annual appropriation for the Rail Network Investment Programme that was previously in place.

Reasons for change in appropriation: This multi-year appropriation increased by $134.387 million to $1,438.295 million for 2022/23 due to:

- a carry forward of $73.487 million from 2021/22 to 2022/23 related to the impact of COVID-19 delays and supply chain constraints on activities within the Rail Network and Public Transport Infrastructure activity classes within the Rail Network Investment Programme
- new funding of $40 million in 2022/23 to provide for the reinstatement of operating sections of the rail network impacted by the Auckland weather event and Cyclone Gabrielle while KiwiRail awaits the outcome of its insurance claim
- new funding of $20.9 million in 2022/23 for the Rail Network Investment Programme to fund additional cost pressures.

	2023 Actual	2023 Budget	2023 Final budget
Amount of appropriation ($000)	455,456	471,329	496,579
Assessment of performance:			
Work is carried out as per the agreed programme	92%		100%

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

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

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

Reasons for change in appropriation: This multi-year appropriation increased by $6.870 million to $19.080 million for 2022/23 due to:

- additional funding received to ensure KiwiRail are adequately prepared for the opening of the Auckland City Rail Link

	2023 Actual	2023 Budget	2023 Final budget
Amount of appropriation ($000)	2,904	4,656	3,019
Assessment of performance:			
Work is carried out as per the agreed programme	73%		100%

Outcome of investment: 8 out of 11 milestones delivered.

KiwiRail Holidays Act Remediation (M72) (A26)

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

	2023 Actual	2023 Budget	2023 Final budget
Amount of appropriation ($000)	1,129	1,129	1,129
Assessment of performance:			
Remediation payments are made for non-compliance with the Holidays Act 2003	Achieved		Achieved

Outcome of investment: Remediation payments made to affected current and former staff.

Rail – KiwiRail equity injection (M72) (A26)

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

Reasons for change in appropriation: This appropriation decreased by $21.240 million to $4.960 million for 2022/23 due to:

- $32.089 million transferred from 2022/23 to 2023/24 and outyears to reflect the latest expected forecast for land sales.
- The decrease was offset by $10.849 million carried forward from 2021/22 to 2022/23 to reflect the expected forecast at the time the transfer was made.

In Principle Expense Transfer from 2022/23 to 2023/24 for $1.9 million unspent portion of appropriation.

	2023 Actual	2023 Budget	2023 Final budget
Amount of appropriation ($000)	-	26,200	4,960
Assessment of performance:			
Property transactions are carried out in line with agreed outcomes.	0%		100%

Outcome of investment: This appropriation reflects property sales by the New Zealand Railways Corporation, the proceeds of which must be paid to KiwiRail Holdings Limited.

Property transactions are challenging to forecast as the settlement process timing can be difficult to predict. If a settlement does not occur in a particular year, then it is likely that it will move into the following year.

Rail – KiwiRail Holdings Limited (M72) (A26)

This appropriation is limited to a capital injection to KiwiRail Holdings Limited to finance approved capital expenditure on the New Zealand rail system.

Reasons for change in appropriation: This appropriation decreased by $101.631 million to $767.372 million for 2022/23 due to:

- $147.818 million transferred from 2022/23 into future years to align funding with the updated project schedules after detailed planning for a number of projects including the new interisland ferry assets, New Zealand Upgrade Programme projects, and railway rolling stock investment.
- $534,000 of funding relating to fleet decarbonisation was transferred to the "Rail - Grants" multi-year appropriation.

This decrease was partially offset by:

- $44 million in additional funding provided to address cost pressures within the Papakura to Pukekohe Electrification project (part of the New Zealand Upgrade Programme)
- $2.721 million relating to KiwiRail's capital costs in preparing for the delivery of City Rail Link and the Ashburton Rail Hub Project was carried forward from 2021/22 to 2022/23. The funding for the projects was confirmed after KiwiRail's final equity issuance for 2021/22.

In Principle Expense Transfer from 2022/23 to 2023/24 for $44.001 million unspent portion of appropriation.

	2023 Actual	2023 Budget	2023 Final budget
Amount of appropriation ($000)	723,371	869,003	767,372
Assessment of performance:			
Capital is invested in the New Zealand rail system as approved by shareholding Ministers.	94%		100%

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

Rail - KiwiRail equity injection for Transfer of Auckland City Rail Link Assets (M72) (A26)

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

Reasons for change in appropriation: This appropriation increased by $150 million to $150 million for 2022/23 to enable the early asset transfers from City Rail Link Limited to KiwiRail Holdings Limited.

	2023 Actual	2023 Budget	2023 Final budget
Amount of appropriation ($000)	125,567	-	150,000
Assessment of performance:			
Auckland City Rail Link assets transferred to KiwiRail Holdings Limited.	Achieved		Achieved

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

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

Rail projects

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

Reason for change in appropriation: $5.150 million carried forward from 2022/23 to 2023/24 and outyears to align the funding profile with the more detailed planning of projects for Marsden Point Rail Link.

In Principle Expense Transfer from 2022/23 to 2023/24 for $0.045 million unspent portion of appropriation.

	2023 Actual	2023 Budget	2023 Final budget
Amount of appropriation ($000)	5,405	10,600	5,450
Performance measure:			
Work is carried out as per the agreed programme	100%		100%

Outcome of investment: 5 out of 5 milestones delivered.

Enabling infrastructure projects

This category is limited to expenses incurred on local transport-related infrastructure projects that contribute to the outcome of a lift in the productivity potential in the regions.

The amounts disclosed below relate to KiwiRail's portion of the appropriation only.

Reason for change in appropriation: This appropriation increased by $0.150 million for 2022/23 due to:

- $5.700 million carried forward from 2021/22 to 2022/23 as In Principle Expense Transfer
- $5.550 million carried forward from 2022/23 to 2023/24 to align the funding profile with the more detailed planning of projects.

	2023 Actual	2023 Budget	2023 Final budget
Amount of appropriation ($000)	-	-	150
Performance measure:			
Work is carried out as per the agreed pro-gramme	100%		100%

Outcome of investment: 1 out of 1 milestone delivered.

Financial Statements

KiwiRail Holdings Limited and Subsidiaries

Statement of Comprehensive Income

For the financial year ended 30 June 2023

	Note	GROUP 2023	GROUP 2022
		$m	$m
Operating revenues	2	992.7	851.0
Operating expenses	3	(835.1)	(717.1)
Operating surplus		**157.6**	**133.9**
Capital grants	4	589.1	348.9
Depreciation and amortisation expenses	8(a), 8(b), 19	(143.7)	(165.5)
Foreign exchange and commodity losses	5	(0.9)	(7.5)
Impairment	8(c), 8(d), 13, 19	(1,425.4)	(777.2)
Insurance proceeds		51.8	13.5
Movement in value of investment properties	13	(3.8)	-
Net finance income/(expenses)	6	8.6	0.4
Other income		1.6	1.4
Other costs - Impact of weather events		(5.5)	-
Net (deficit) before taxation		**(770.6)**	**(452.1)**
Income tax expense	7	-	-
Net (deficit) after taxation		**(770.6)**	**(452.1)**
Other comprehensive income/(loss)			
Items that can be reclassified into net surplus/deficit:			
Gains from cash flow hedges		11.3	109.6
Items that cannot be reclassified into net surplus/deficit:			
Asset revaluation	8(c)	39.6	(0.1)
Loss on share investment		-	(0.1)
Total comprehensive (loss)		**(719.7)**	**(342.7)**

The accompanying notes form part of these financial statements.

KiwiRail Holdings Limited and Subsidiaries

Statement of Financial Position

As at 30 June 2023

	Note	GROUP 2023	GROUP 2022
		$m	$m
Current assets			
Cash and cash equivalents	9	246.2	160.2
Short-term deposits	9	40.0	10.0
Trade and other receivables	10	283.8	185.9
Inventories	11	163.3	120.2
Financial assets	12	24.4	29.1
Asset held for sale	8(d)	18.9	-
		776.6	**505.4**
Non-current assets			
Property, plant and equipment	8(a)	1,357.8	1,514.6
Right of use assets	19	114.8	57.9
Investment property	13	106.4	98.7
Intangible assets	8(b)	-	7.4
Financial assets	12	60.1	60.2
Trade and other receivables	10	271.5	216.3
		1,910.6	**1,955.1**
Total assets		**2,687.2**	**2,460.5**
Current liabilities			
Trade and other liabilities	14	363.2	356.3
Employee entitlements	15	117.6	117.0
Financial liabilities	12	22.5	34.1
Provisions	16	10.3	10.4
		513.6	**517.8**
Non-current liabilities			
Trade and other liabilities	14	65.9	-
Employee entitlements	15	41.8	43.7
Financial liabilities	12	128.0	83.4
		235.7	**127.1**
Total liabilities		**749.3**	**644.9**
Equity			
Share capital	22	4,324.8	3,470.5
Retained earnings		(2,521.8)	(1,739.8)
Asset revaluation reserve		55.7	17.0
Cash flow hedge reserve		79.4	68.1
Share revaluation reserve		(0.2)	(0.2)
Total equity		**1,937.9**	**1,815.6**
Total liabilities and equity		**2,687.2**	**2,460.5**

David McLean

David McLean
Chair
29 September 2023

B J Wattie

Bruce Wattie
Chair of the Risk, Assurance and Audit Committee and Director
29 September 2023

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 2023

GROUP	Note	Share Capital	Retained Earnings	Asset Revaluation Reserve	Cash Flow Hedge Reserve	Share Revaluation Reserve	Total
		$m	$m	$m	$m	$m	$m
As at 30 June 2021		**2,679.7**	**(1,262.3)**	**17.1**	**(41.5)**	**(0.1)**	**1,392.9**
Net (deficit) for the period		-	(452.1)	-	-	-	(452.1)
Other comprehensive income/ (loss)		-	-	(0.1)	109.6	(0.1)	109.4
Total comprehensive income/(loss)		**-**	**(452.1)**	**(0.1)**	**109.6**	**(0.1)**	**(342.7)**
Transactions with owners							
Capital Investment (net)	22	790.8	-	-	-	-	790.8
Crown appropriation – land transactions	17	-	(25.4)	-	-	-	(25.4)
As at 30 June 2022		**3,470.5**	**(1,739.8)**	**17.0**	**68.1**	**(0.2)**	**1,815.6**
Net (deficit) for the period		-	(770.6)	-	-	-	(770.6)
Other comprehensive income/ (loss)		-	0.9	38.7	11.3	-	50.9
Total comprehensive income/(loss)		**-**	**(769.7)**	**38.7**	**11.3**	**-**	**(719.7)**
Transactions with owners							
Capital Investment	22	854.3	-	-	-	-	854.3
Crown appropriation – land transactions	17	-	(12.3)	-	-	-	(12.3)
As at 30 June 2023		**4,324.8**	**(2,521.8)**	**55.7**	**79.4**	**(0.2)**	**1,937.9**

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 2023

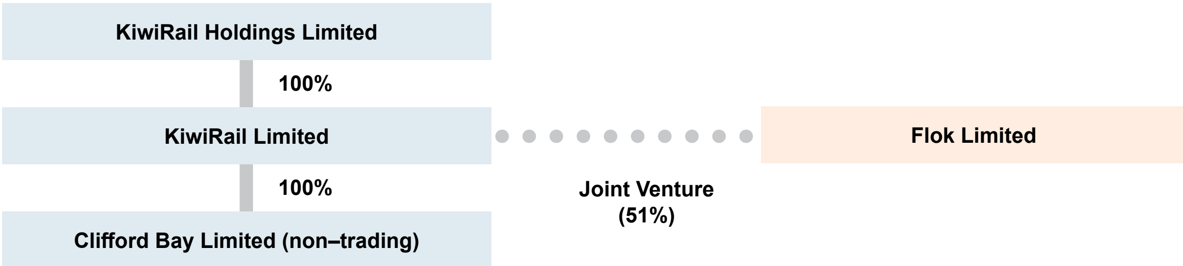
	Note	GROUP 2023	GROUP 2022
		$m	$m
Cash flows from operating activities			
Receipts from customers		854.7	717.6
Receipts from the National Land Transport Fund		156.2	106.8
Receipt of Holiday Act Remediation Appropriation		1.1	-
Interest received		16.5	3.8
Payments to suppliers and employees		(867.5)	(764.1)
Payments for interest on borrowings		(0.1)	(2.5)
Payments for interest on leases		(7.5)	(3.0)
Net cash from operating activities	20	**153.4**	**58.6**
Cash flows from investing activities			
Sale of property, plant and equipment		2.4	0.4
Capital grant receipts		245.6	316.7
National Land Transport Fund receipts		277.7	154.3
Insurance proceeds		1.8	11.1
Maturity of short-term deposits		-	50.0
Purchase of property, plant and equipment and investment properties		(1,208.6)	(1,138.4)
Purchase of intangibles		(39.2)	(30.2)
Purchase of short-term deposits		(30.0)	(10.0)
Net cash used in investing activities		**(750.3)**	**(646.1)**
Cash flows from financing activities			
Crown capital investment		728.8	639.5
Advance of loans		-	25.0
Payment for NZRC land acquisitions		(12.3)	(25.4)
Repayment of loans		(4.0)	(40.3)
Lease payments		(29.6)	(28.5)
Crown capital repayment		-	(132.0)
Net cash from financing activities		**682.9**	**438.3**
Net increase/(decrease) in cash and cash equivalents		**86.0**	**(149.2)**
Cash and cash equivalents at the beginning of the year		160.2	309.4
Cash and cash equivalents at the end of the year	9	**246.2**	**160.2**

The accompanying notes form part of these financial statements.

1. GROUP INFORMATION

REPORTING ENTITY

KiwiRail Holdings Limited ("KiwiRail", "the Parent") is a company domiciled in New Zealand, registered under the Companies Act 1993 and is included within the First Schedule of the State-Owned Enterprises Act 1986. The beneficial shareholder of the Parent is the Crown. The Group comprises KiwiRail Holdings Limited and its subsidiaries as detailed in the diagram below:



The following activities are carried out by the Group:

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

The financial statements of the Group are for the year ended 30 June 2023 and were authorised for issue by the Board of Directors on 29 September 2023.

(b) BASIS OF PREPARATION

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") as appropriate for for-profit entities and other applicable Financial Reporting Standards. They meet the requirements of the State-Owned Enterprises Act 1986, the Companies Act 1993 and the Financial Reporting Act 2013.

The financial statements have been prepared:

- on the basis of historical cost, except for certain non-financial assets and derivative financial instruments, which have been valued at fair value; and
- on a going concern basis.

Accounting policies are selected and applied in a manner that 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.

1. GROUP INFORMATION (continued)

(c) CONSOLIDATED FINANCIAL STATEMENTS

All items in the financial statements are presented exclusive of goods and services tax (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 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.

(d) STANDARDS AND INTERPRETATIONS

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

(e) SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenues and expenses.

The Board of Directors (“the Board”) has determined that the Group should be designated as a for-profit entity for the purpose of preparing these financial statements. It has arrived at this position after considering XRB A1 Application of the Accounting Standard Framework (XRB A1).

The Board has used judgement in assessing the indicators in the application guidance of XRB A1, including the objectives of the Group and the nature of the benefits the Group provides. Under the State-Owned Enterprises Act 1986 the principal objective of KiwiRail is to operate as a successful business, including being as profitable and efficient as comparable businesses that are not owned by the Crown. On balance, after consideration of these indicators, the Board concluded that the for-profit designation applies.

As a consequence of the for-profit designation, the Group values its property, plant and equipment on a cash generating basis, which results in substantial impairment (refer Note 8). In the Financial Statements of Government, a public benefit entity, the rail infrastructure assets are valued on a non-cash generating basis using optimised depreciated replacement cost (ODRC) at $12,930m (2022: $9,189m) compared to a carrying value of $241m (2022: $324m) per Note 8. The ODRC valuation basis does not require impairment of the Group’s rail network assets.

KiwiRail is continually reviewing and enhancing data collection processes to improve the quality and accuracy of the ODRC valuation. The current year ODRC valuation includes refinements to, and resulting increases in the value of earthworks, retaining walls and erosion protection structures. Stabilisation works are not currently included in the valuation due to limited data.

Management’s significant judgements, estimates and assumptions are outlined in the relevant notes to the financial statements. These estimates and associated assumptions are based on experience and various other factors that are considered to be reasonable in the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

2. OPERATING REVENUES

	GROUP 2023	GROUP 2022
	$m	$m
Freight	501.3	463.9
Interislander	151.1	106.4
Property	62.5	59.5
Scenic & Commuter	34.1	11.2
Other	25.5	28.5
Funding from the National Land Transport Fund	139.7	117.6
Networks	77.4	63.9
Holidays Act Remediation Appropriation	1.1	-
Total operating revenues	**992.7**	**851.0**

Revenue recognition

Revenue is recognised when or as performance obligations are satisfied by transferring control of goods or services to customers at contracted transaction prices. Control typically transfers to customers on delivery of products or as services are provided. Transaction prices include all amounts that the Group expects to be entitled to net of sales taxes and other indirect taxes, expected rebates and discounts.

3. OPERATING EXPENSES

	GROUP 2023	GROUP 2022
	$m	$m
Salaries and wages	587.1	490.8
Restructuring	1.5	0.7
Defined contribution plan employer contributions	20.3	17.8
Other employee expenses	15.4	16.7
Total employee expenses	624.3	526.0
Amount capitalised	(235.6)	(164.7)
Total employee costs expensed	**388.7**	**361.3**
Materials and supplies	152.9	133.4
Fuel and traction electricity	141.2	103.3
Lease and rental costs	24.6	18.5
Incidents and insurance	36.5	34.5
Contractors' expenses	9.8	7.0
Audit fees	0.6	0.4
Impairment of receivables	(0.2)	-
Directors' fees (Note 21)	0.4	0.4
(Gain)/loss on disposal of property, plant and equipment	(1.4)	1.6
Other expenses	82.0	56.7
Total operating expenses	**835.1**	**717.1**

Audit fees include other assurance services of $nil (2022: $nil).

4. CAPITAL GRANTS

	GROUP 2023	GROUP 2022
	$m	$m
Ministry of Transport	2.5	35.6
National Land Transport Fund	295.0	113.5
Local and Regional Councils	109.3	85.9
City Rail Link	43.7	22.7
Auckland Transport	127.1	84.7
Ministry of Business, Innovation and Employment	5.8	2.4
Waka Kotahi	5.5	2.3
Other	0.2	1.8
Total capital grant income	**589.1**	**348.9**

The Group primarily receives grants from Government entities for maintaining the railway network and infrastructure. Grants have been received to expand metropolitan services, establish regional commuter services, refurbish the electric locomotive fleet and for property redevelopment.

Grants received for services provided are recognised when the requirements of the relevant grant agreement are met. Funding received as reimbursement for capital projects is recognised as grant income in the same period as the expenditure for which the grant is intended to compensate is recognised. The expenditure may include depreciation or impairment of the assets the capital projects relate to.

The Group's policy is not to adjust the deferred income balance in the current year where there were reversals of impairment. The current year impairment reversals for grant income recorded in the prior year is driven by the judgements made as it relates to the impairment of the Rail CGU as disclosed in Note 8(c).

5. FOREIGN EXCHANGE AND COMMODITY GAINS AND LOSSES

	GROUP 2023	GROUP 2022
	$m	$m
Net realised foreign exchange and commodity gains/(losses)	2.2	(16.2)
Net change in the fair value of derivatives	(3.1)	8.7
Total foreign exchange and commodity losses	**(0.9)**	**(7.5)**

Foreign exchange and commodity gains/(losses) on fuel related contracts of $2.2m (2022: $4.0m) are included within 'Fuel and Traction Electricity' in Note 3.

Foreign currency translation

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

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

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

6. NET FINANCE INCOME/(EXPENSES)

	GROUP 2023	GROUP 2022
	$m	$m
Finance income		
Interest income on bank deposits	17.2	3.3
	17.2	3.3
Less: Finance expenses		
Interest expense on borrowings	(0.2)	(2.0)
Interest expense on leases	(7.5)	(3.0)
Net change in fair value of interest rate swaps	(0.9)	2.1
	(8.6)	(2.9)
Net finance income	**8.6**	**0.4**

Finance income and expenses
Interest income from call and term deposits and interest expense on borrowings are recognised in net surplus or deficit using the effective interest rate method. Interest income is recognised as it accrues.

7. TAXATION

Income tax

All members of the Group are subject to income tax. The accounting policies applied are as follows:

Income tax expense comprises both current and deferred tax. Income tax expense is charged or credited to net surplus or deficit, except when it relates to items charged or credited directly to equity, in which case the tax is charged to equity.

(a) Current tax

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at reporting date and any adjustments to tax in respect of previous years.

(b) Deferred tax

Deferred tax is provided for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the carrying amounts used for taxation purposes. No deferred tax asset is recognised in the financial statements as it is not probable that future taxable surpluses will be available against which the deferred tax asset can be utilised.

7. TAXATION (continued)

(c) Tax benefit/(expense)

	GROUP 2023	GROUP 2022
	$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	(770.6)	(452.1)
Tax at 28%	(215.8)	(126.6)
Tax effect of:		
Non-deductible expenditure	(12.2)	1.4
Other temporary differences	228.0	125.2
Tax benefit/(expense)	**-**	**-**

The Group has unrecognised deductible temporary differences of $3,034.7m (2022: $3,105.2m) and unused tax losses of $1,757.2m (2022: $1,486.5m).

Imputation credits

The Group has formed an imputation group. The Group has access to $1.2m imputation credits (2022: $1.2m imputation credits).

8. NON-FINANCIAL ASSETS

(a) PROPERTY, PLANT AND EQUIPMENT

2023	Buildings	Railway Infrastructure	Rolling Stock	Ships	Plant & Equipment	Assets Under Construction	Total
Cost	$m	$m	$m	$m	$m	$m	$m
Balance at 1 July 2022	**74.9**	**324.2**	**586.0**	**332.9**	**316.2**	**1,597.3**	**3,231.5**
Additions	-	-	-	-	-	1,334.8	1,334.8
Transfers - AUC	43.1	695.4	137.3	49.8	26.2	(951.8)	-
Disposals	-	-	(2.9)	-	(0.6)	-	(3.5)
Reclassifications	(8.8)	-	-	11.3	6.1	-	8.6
Revaluation	20.5	-	7.7	-	-	-	28.2
Impairment	(36.5)	(778.2)	(117.5)	-	-	-	(932.2)
Transfer to held for sale	-	-	-	(16.1)	(6.8)	-	(22.9)
Balance at 30 June 2023	**93.2**	**241.4**	**610.6**	**377.9**	**341.1**	**1,907.3**	**3,644.5**
Accumulated depreciation and impairment							
Balance at 1 July 2022	**(9.0)**	**-**	**-**	**(226.8)**	**(285.9)**	**(1,195.2)**	**(1,716.9)**
Depreciation expense	(5.5)	(33.0)	(58.4)	(23.1)	(7.4)	-	(127.4)
Transfers - AUC impairment	(21.1)	(500.5)	(42.2)	-	(17.3)	581.1	-
Disposals	-	-	2.3	-	0.6	-	2.9
Reclassifications	2.0	-	-	-	(2.0)	-	-
Revaluation	9.6	-	1.9	-	-	-	11.5
Impairment	23.6	533.5	96.4	(48.7)	(7.0)	(1,058.6)	(460.8)
Transfer to held for sale	-	-	-	1.9	2.1	-	4.0
Balance at 30 June 2023	**(0.4)**	**-**	**-**	**(296.7)**	**(316.9)**	**(1,672.7)**	**(2,286.7)**
Net book value							
At 1 July 2022	**65.9**	**324.2**	**586.0**	**106.1**	**30.3**	**402.1**	**1,514.6**
At 30 June 2023	**92.8**	**241.4**	**610.6**	**81.2**	**24.2**	**307.6**	**1,357.8**

8. NON-FINANCIAL ASSETS (continued)

(a) PROPERTY, PLANT AND EQUIPMENT (continued)

2022	Buildings	Railway Infrastructure	Rolling Stock	Ships	Plant & Equipment	Assets Under Construction	Total
Cost	$m	$m	$m	$m	$m	$m	$m
Balance at 1 July 2021	**55.4**	**295.3**	**385.8**	**318.8**	**286.8**	**965.9**	**2,308.0**
Additions	-	-	-	-	-	1,144.7	1,144.7
Transfers - AUC	21.9	354.2	93.0	14.1	30.1	(513.3)	-
Disposals	-	-	(0.1)	-	(0.7)	-	(0.8)
Revaluation	(0.1)	-	-	-	-	-	(0.1)
Impairment	(2.3)	(325.3)	107.3	-	-	-	(220.3)
Balance at 30 June 2022	**74.9**	**324.2**	**586.0**	**332.9**	**316.2**	**1,597.3**	**3,231.5**
Accumulated depreciation and impairment							
Balance at 1 July 2021	**(3.5)**	**-**	**-**	**(191.4)**	**(181.0)**	**(695.1)**	**(1,071.0)**
Depreciation expense	(5.5)	(28.8)	(41.5)	(35.4)	(24.7)	-	(135.9)
Transfers - AUC impairment	-	(130.9)	-	-	-	130.9	-
Disposals	-	-	0.1	-	0.3	-	0.4
Revaluation	-	-	-	-	-	-	-
Impairment	-	159.7	41.4	-	(80.5)	(631.0)	(510.4)
Balance at 30 June 2022	**(9.0)**	**-**	**-**	**(226.8)**	**(285.9)**	**(1,195.2)**	**(1,716.9)**
Net book value							
At 1 July 2021	**51.9**	**295.3**	**385.8**	**127.4**	**105.8**	**270.8**	**1,237.0**
At 30 June 2022	**65.9**	**324.2**	**586.0**	**106.1**	**30.3**	**402.1**	**1,514.6**

8. NON-FINANCIAL ASSETS (continued)

(a) PROPERTY, PLANT AND EQUIPMENT (continued)

(i) Recognition and initial measurement

Property, plant and equipment is initially recognised at cost when it is probable that its future economic benefits will flow to the Group and can be measured reliably. Cost includes expenditure that is directly attributable to the acquisition or construction of the asset.

(ii) Subsequent measurement

The Group uses the revaluation model for buildings, railway infrastructure and rolling stock. After the initial recognition, these assets are carried at a revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. See note 8(a)(iii) for more information about the revaluation.

The cost model is used for ships and plant and equipment. After the initial recognition, these assets are carried at their cost less any accumulated depreciation and impairment losses.

Assets under construction are carried at cost on initial recognition and assessed for impairment at each reporting date.

Where an asset is acquired for nil or nominal consideration the asset is recognised initially at fair value, where fair value can be readily determined. The fair value of the asset less costs incurred to acquire the asset is recognised as income in the Statement of Comprehensive Income.

(iii) Revaluation

Buildings, railway infrastructure and rolling stock 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 in the carrying amount of a revalued asset is credited to other comprehensive income in the Statement of Comprehensive Income and accumulated in an asset revaluation reserve in equity, except to the extent that such a revaluation increase reverses a revaluation decrease for the same asset that was previously recognised as an expense in net surplus or deficit. In such situations, the revaluation increase is then credited to net surplus or deficit.

Any decrease in the carrying amount arising on the revaluation of a revalued asset is recognised 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 increase of that asset.

If revalued assets were stated under the cost model the carrying amounts would be: Buildings $46.6m (2022: $48.9m); Railway Infrastructure: $241.4m (2022: $324.2m); and Rolling Stock: $601.1m (2022: $586.0m).

(iv) Derecognition

Realised gains and losses arising on 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.

8. NON-FINANCIAL ASSETS (continued)

(a) PROPERTY, PLANT AND EQUIPMENT (continued)

(v) 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.

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

Category	Useful life
Railway Infrastructure	
Tunnels and bridges	75 – 150 years
Track and ballast	40 – 50 years
Overhead traction	20 – 80 years
Signals and communications	15 – 50 years
Buildings	35 – 80 years
Rolling Stock and Ships	
Wagons and carriages	5 – 30 years
Locomotives	5 – 25 years
Ships	20 years
Containers	10 years
Plant and Equipment	
Plant and equipment	5 – 35 years
Motor vehicles	5 – 12 years
Furniture and fittings	5 – 12 years
Office equipment	3 – 5 years

Estimation of useful lives of assets

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

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

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

(b) INTANGIBLE ASSETS

	Note	GROUP 2023	GROUP 2022
		$m	$m
Opening balance		**7.4**	**0.2**
Additions		39.6	29.8
Amortisation		(0.1)	(0.2)
Impairment	8(c)(i)	(46.9)	(22.4)
Balance at 30 June		**-**	**7.4**

8. NON-FINANCIAL ASSETS (continued)

(b) INTANGIBLE ASSETS (continued)

Intangible assets comprise software applications that have a finite useful life. They are recorded at cost less accumulated amortisation and impairment adjustments. Amortisation is recognised on a straight-line basis over the assets estimated useful lives of 3 to 5 years.

Included in additions are transfers from intangible assets under construction of $0.3m (2022: $13.6m). Impairment includes transfers of impairment of intangible assets under construction of $0.2m (2022: $13.0m).

(c) IMPAIRMENT OF NON-FINANCIAL ASSETS

Impairment of Cash Generating Units ("CGUs")

The Group has two CGUs; the Rail CGU comprising the rail operations of the Group, and the Interislander CGU, comprising the Interislander ferry operations.

The following asset classes form each individual CGU:

- Rail – non-leased buildings, railway infrastructure, rolling stock, plant and equipment, right-of-use assets, intangible assets and prepayments, which are progress payments for the acquisition of new rolling stock and plant and equipment.
- Interislander – ships and related plant and equipment, right-of-use assets, intangible assets and prepayments, which are progress payments for the acquisition of new ships.

A class of assets is a grouping of assets of similar nature and use in an entity's operations. Management have applied judgement to allocate asset classes that are used together to generate the relevant stream of cash inflows for each CGU.

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

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

(i) Rail CGU

The Group has determined the recoverable amount of the Rail CGU to be FVLCD, as it is higher than the VIU. This has changed from the prior year due to a reduction in the VIU based on the Group's revised and best estimate of the future cash flows.

As at 30 June 2023, the recoverable amount of the Rail CGU was $1,556.8m (FVLCD), which was less than the carrying amount. The difference between the recoverable amount and the carrying amount has been recognised as an impairment. See note 23(b) below for the assumptions and judgements applied in determining the FVLCD of the Rail CGU.

8. NON-FINANCIAL ASSETS (continued)

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

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

GROUP 2023	2023 Carrying amount before revaluation and impairment	Reversal of/ (Impairment) recognised in net surplus or deficit	Movement recognised in Asset Revaluation Reserve	Carrying amount after impairment
	$m	$m	$m	$m
Rail CGU				
Buildings	75.6	(12.9)	30.1	92.8
Railway infrastructure	486.1	(244.7)	-	241.4
Rolling stock	622.1	(21.0)	9.5	610.6
Plant and equipment	24.6	(5.5)	-	19.1
Right-of-use assets	53.4	14.9	-	68.3
Assets under construction	1,138.5	(830.9)	-	307.6
Total property, plant and equipment	2,400.3	(1,100.1)	39.6	1,339.8
Intangible assets	46.6	(46.6)	-	-
Prepayments	217.0	-	-	217.0
Total Rail CGU	**2,663.9**	**(1,146.7)**	**39.6**	**1,556.8**

As at 30 June 2022 the recoverable amount of the Rail CGU was determined as VIU, using the discounted cash flow valuation method with a pre-tax discount rate of 7.3%. The table below summarises the impairment and revaluation movements recognised for the Rail CGU:

GROUP 2022	2022 Carrying amount before revaluation and impairment	Reversal of/ (Impairment) recognised in net surplus or deficit	Movement recognised in Asset Revaluation Reserve	Carrying amount after impairment
	$m	$m	$m	$m
Rail CGU				
Buildings	65.1	(2.3)	(0.1)	62.7
Railway infrastructure	489.8	(165.6)	-	324.2
Rolling stock	437.3	148.7	-	586.0
Plant and equipment	103.7	(80.5)	-	23.2
Right-of-use assets	30.6	(23.0)	-	7.6
Assets under construction	909.4	(631.0)	-	278.4
Total property, plant and equipment	2,035.9	(753.7)	(0.1)	1,282.1
Intangible assets	29.8	(22.4)	-	7.4
Prepayments	161.8	-	-	161.8
Total Rail CGU	**2,227.5**	**(776.1)**	**(0.1)**	**1,451.3**

(ii) Interislander CGU

The Group has determined the recoverable amount of the Interislander CGU to be FVLCD, as it is higher than the VIU. This has changed from the prior year due to a reduction in the VIU based on the Group's revised and best estimate of the future cash flows.

As at 30 June 2023, the recoverable amount of the Interislander CGU was $187.3m (FVLCD), which was less than the carrying amount. The difference between the recoverable amount and the carrying amount has been recognised as an impairment. See note 23(b) below for the assumptions and judgements applied in determining the FVLCD of the Interislander CGU.

8. NON-FINANCIAL ASSETS (continued)

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

The Interislander CGU at 30 June 2023 includes the Inter-Island Resilient Connection (iReX) programme. This programme comprises the purchase of two new large rail-enabled ferries and the construction of associated terminal infrastructure in Wellington and Waitohi Picton. It will provide a resilient, sustainable Cook Strait transport connection with capacity for growth. The iReX assets are an addition to the existing Interislander CGU assets.

The iReX programme has been included in the Interislander CGU for the first time in the financial year ended 30 June 2023. Its inclusion in the Interislander CGU is based on significant expenditure incurred on the programme during the financial year, the Group's commitment to the programme, the fact that it has substantially commenced, and the Group not being aware of any information that suggests the programme will not continue.

A comprehensive review of the programme in 2023 identified an increase in the cost to construct the terminal infrastructure and a consequential shortfall in the funding needed to complete the programme in its current form. The Board has been in discussions with the Group's shareholder about options to address the cost increase and funding shortfall, and on 19 September 2023 the shareholder advised the Board of funding options that will ensure the programme can continue. The Board will continue discussions with the shareholder and officials. This matter will not be resolved before the signing of these financial statements. However, the quantum of the current impairment of the Interislander CGU will not be impacted by the outcome of the discussions. Refer also to the subsequent event note 27.

The table below summarises the impairment movements recognised for the Interislander CGU:

GROUP 2023	2023 Carrying amount before revaluation and impairment	Reversal of/ (Impairment) recognised in net surplus or deficit	Movement recognised in Asset Revaluation Reserve	Carrying amount after impairment
	$m	$m	$m	$m
Interislander CGU				
Ships	126.5	(45.3)	-	81.2
Plant and equipment	6.8	(1.7)	-	5.1
Right-of-use assets	46.5	-	-	46.5
Assets under construction	227.9	(227.9)	-	-
Total property, plant and equipment	407.7	(274.9)	-	132.8
Intangible assets	0.3	(0.3)	-	-
Prepayments	54.5	-	-	54.5
Total Interislander CGU	**462.5**	**(275.2)**	**-**	**187.3**

As at 30 June 2022 the recoverable amount of the Interislander CGU was determined as VIU, using the discounted cashflow valuation method with a pre-tax discount rate of 7.5%. There was no impairment recognised for the Interislander CGU for the year ended 30 June 2022.

(d) ASSETS HELD FOR SALE

The Group classifies non-current assets held for sale in accordance with NZ IFRS 5 if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Assets held for sale are measured at the lower of their carrying amount or fair value less cost to sell.

The Valentine ferry was classified as "held for sale" at 30 June 2023. Its fair value less cost to sell was less than its carrying amount resulting in an impairment charge of $3.4m, which has been recognised in the Statement of Comprehensive Income.

9. CASH AND CASH EQUIVALENTS

	GROUP 2023	GROUP 2022
	$m	$m
Current accounts and call deposits	246.2	160.2
	246.2	**160.2**

Cash and cash equivalents comprise cash on hand, call deposits and other investments with an initial term of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Call deposits and other investments with a term of greater than three months from acquisition date are classified as short-term deposits. The Group has short-term deposits of $40m as at 30 June 2023 (2022: $10m).

10. TRADE AND OTHER RECEIVABLES

	GROUP 2023	GROUP 2022
	$m	$m
Trade receivables	84.2	81.8
Related party receivables	69.8	44.8
GST receivable	1.0	4.2
Prepayments	316.2	246.9
Accrued and other receivables	86.9	27.5
Less: Provision for impairment	(2.8)	(3.0)
	555.3	**402.2**
Current assets	283.8	185.9
Non-current assets	271.5	216.3
	555.3	**402.2**

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

The Group applies a simplified business model approach to classify and measure financial instruments after initial recognition. This reflects that financial assets are managed as a group rather than individually.

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

Impairment

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

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

10. TRADE AND OTHER RECEIVABLES (continued)

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

	GROUP 2023			GROUP 2022		
	Gross	Impairment	Net	Gross	Impairment	Net
	$m	$m	$m	$m	$m	$m
Not past due	130.4	(0.2)	130.2	76.1	-	76.1
Past due 1 – 30 days	3.2	(0.1)	3.1	42.9	(0.6)	42.3
Past due 31 – 60 days	1.5	(0.1)	1.4	1.1	(0.3)	0.8
Past due 61 - 90 days	0.9	(0.9)	-	1.1	(1.1)	-
Past due > 91 days	1.5	(1.5)	-	1.0	(1.0)	-
Total	**137.5**	**(2.8)**	**134.7**	**122.2**	**(3.0)**	**119.2**

The average credit period on sales of goods and services is 27.0 days (2022: 27.0 days).

11. INVENTORIES

	GROUP 2023	GROUP 2022
	$m	$m
Operational Activities:		
Fuel	4.1	4.5
Inventory held to maintain rail network	80.3	52.5
Inventory held to maintain rolling stock	82.0	67.5
Inventory held to maintain ships	13.5	11.6
Inventory held for resale	0.7	0.1
Contracting Activities – work in progress	4.5	2.8
Gross inventory	185.1	139.0
Less: Provision for stock obsolescence	(21.8)	(18.8)
Net inventory	**163.3**	**120.2**

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

Write-downs or reversals of write-downs of inventories are recognised in operating expenses in net surplus or deficit, in the period the loss or reversal occurs. During the year, the Group has recognised write-downs in inventory of $3.1m (2022: write-down of $0.1m).

12. FINANCIAL ASSETS AND LIABILITIES

	GROUP 2023			GROUP 2022		
	Current	Non-current	Total	Current	Non-current	Total
	$m	$m	$m	$m	$m	$m
Financial assets						
Commodity forward contracts	0.1	-	0.1	3.9	0.5	4.4
Foreign currency forward contracts	23.9	47.5	71.4	24.9	46.9	71.8
Interest rate swaps	-	12.6	12.6	-	12.8	12.8
Share investments	0.4	-	0.4	0.3	-	0.3
Total financial assets	**24.4**	**60.1**	**84.5**	**29.1**	**60.2**	**89.3**
Financial liabilities						
Commodity forward contracts	0.5	0.1	0.6	-	-	-
Loans	-	25.0	25.0	4.0	25.0	29.0
Leases (Note 19)	21.0	101.4	122.4	28.6	48.0	76.6
Foreign currency forward contracts	1.0	1.5	2.5	1.4	10.4	11.8
Interest rate swaps	-	-	-	0.1	-	0.1
Total financial liabilities	**22.5**	**128.0**	**150.5**	**34.1**	**83.4**	**117.5**

(a) Financial assets

The Group's financial assets designated at fair value are those derivative financial instruments used to manage exposure to fluctuations in foreign exchange rates, commodity prices and interest rates. The accounting policy for these types of financial assets is set out under 'Derivative financial instruments' in Note 23(b)(i).

Financial assets designated at fair value are classified as non-current when the maturity of the hedged item exceeds 12 months.

Share investments are initially recognised at cost, and subsequently revalued to fair value through other comprehensive income. Share investments are not held for trading.

(b) Financial liabilities

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

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

Interest-bearing liabilities

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

Unsecured loans

The Group had no unsecured loans as at 30 June 2023 (2022: $nil).

12. FINANCIAL ASSETS AND LIABILITIES (continued

(b) Financial liabilities (continued)

Secured loans

As at 30 June 2023 the Group has drawn down $25.0m of the $350.0m committed syndicated loan facility to partially fund the replacement of the Group's Interislander ferries (2022: $25.0m).

The outstanding principal for all secured loans as at 30 June 2023 was $25.0m (2022: $29.0m).

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

	Unit	GROUP 2023	GROUP 2022
Notional principal	$m	27.8	32.6
Average interest rate	%	7.14	3.55
Average term to maturity	years	11.37	10.56

Committed standby facility

The Group had a committed standby facility with Bank of New Zealand for $15.0m as at 30 June 2023 (2022: $15.0m) with an expiry date of 1 July 2025. As at 30 June 2023, the facility was undrawn.

Letter of credit facilities

The Group had no letter of credit facilities at 30 June 2023 (2022: nil).

Standby letter of credit

The Group had no standby letters of credit at 30 June 2023 (2022: nil).

(c) Changes in liabilities arising from financing activities

	GROUP 2022	Net Cash Flow	Non-cash changes Changes in fair values	Others	GROUP 2023
	$m	$m	$m	$m	$m
Loans	29.0	(4.0)	-	-	25.0
Leases	76.6	(35.4)	-	81.2	122.4
Total liabilities from financing activities	**105.6**	**(39.4)**	**-**	**81.2**	**147.4**

13. INVESTMENT PROPERTY

	GROUP 2023	GROUP 2022
	$m	$m
Opening balance	**98.7**	**95.4**
Additions	9.2	8.4
Disposals	-	(1.8)
Reclassifications	2.6	(3.3)
Fair value gains on valuation	(3.8)	-
Impairment	(0.3)	-
Balance at 30 June	**106.4**	**98.7**

Investment properties include land and buildings held to earn rental income or capital gains through the future resale of the property.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains or losses from changes in fair values are recognised in net surplus or deficit in the year in which they arise.

Valuations of leased buildings are undertaken with sufficient regularity to ensure carrying values do not materially differ from fair values. See Note 23(b)(ii) for the methodology used to determine fair value.

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

The total rental income generated from investment properties for the year ended 30 June 2023 was $12.5m (2022: $11.1m). The direct operating expenses (including maintenance) incurred from the use of investment properties during the year was $2.6m (2022: $2.5m).

14. TRADE AND OTHER LIABILITIES

	GROUP 2023	GROUP 2022
	$m	$m
Trade payables	149.5	86.4
Unearned revenue	173.9	189.0
Accrued interest	0.3	0.2
Related party payable	0.5	-
Other payables and accruals	104.9	80.7
Total payables	**429.1**	**356.3**
Current liabilities	363.2	356.3
Non-current liabilities	65.9	-
	429.1	**356.3**

Payables are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services. Payables are initially measured at fair value and subsequently measured at amortised cost. Due to the short-term nature of the payables, no discounting is applied, and the fair value is materially similar to amortised cost.

14. TRADE AND OTHER LIABILITIES (continued)

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.

The net amount of GST receivable from Inland Revenue ('IR') is included as part of trade and other receivables in Note 10.

15. EMPLOYEE ENTITLEMENTS

	GROUP 2023	GROUP 2022
	$m	$m
Current		
Short-term employee benefits	28.1	34.0
Annual leave entitlement accruals	82.2	76.0
Retirement and long service leave liability	7.3	7.0
Total current	117.6	117.0
Non-Current		
Retirement and long service leave	41.8	43.7
Total non-current	41.8	43.7
Total employee entitlements	**159.4**	**160.7**

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

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

Short-term employee benefits include the Group's estimated remaining liability for remediation of employee leave entitlements under the Holidays Act 2003. The remaining estimated liability is measured at the amount expected to be paid up to 30 June 2023.

Provisions made for employee benefits that 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 payments to be made by the Group for services provided by employees up to the reporting date.

The present value of the retirement and long service leave obligations depend on a number of factors. Two key assumptions used to calculate these liabilities include the discount rate and the salary inflation factor. The assumptions used by the actuaries to calculate the retirement and long service leave liabilities were a salary increase rate range of 2.43% to 3.86% per annum (2022: from 2.46% to 4.37% per annum) and a term specific risk-free discount rate range of 4.19% and 5.43% per annum (2022: between 3.34% and 4.30% per annum).

The discount rate is derived from the yields on Government bonds as at the respective reporting dates, which have terms to maturity that match, as closely as possible, the estimated future cash outflows. The salary inflation factor has been determined after considering historical salary inflation patterns.

Contributions to superannuation plans

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

16. PROVISIONS

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

	ACC AEP	Other provisions	Total
	$m	$m	$m
Balance at 1 July 2022	**4.9**	**5.5**	**10.4**
Provisions made during the year	0.5	1.5	2.0
Provisions utilised or released during the year	(0.2)	(1.9)	(2.1)
Balance at 30 June 2023	**5.2**	**5.1**	**10.3**

ACC Accredited Employer Programme

KiwiRail Holdings Limited and its subsidiary KiwiRail Limited belong to the ACC Accredited Employer Programme ("ACC AEP"). Companies that belong to this programme accept the management and financial responsibility for employee work-related accidents.

The liability for the ACC AEP is estimated by MJW as the present value of expected future payments to be made for employee injuries and claims up to the reporting date. Any changes in key assumptions used by MJW will not have a material impact on the financial statements.

17. 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 to KiwiRail Holdings Limited. All land previously held by KiwiRail was retained by NZRC.

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

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

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

The total net proceeds from land sold/land swaps during the year was $nil (2022: $nil). The total net land acquisitions during the year was $12.3m (2022: $25.4m). They were treated as transactions with owners in the Statement of Movements in Equity.

18. CAPITAL AND OTHER COMMITMENTS

The Group has capital commitments for network upgrades, infrastructure renewal materials, and refurbishment costs relating to rolling stock and purchases of plant and equipment. The Group also has capital commitments in relation to strategic projects such as procurement of new rolling stock and ferries

	GROUP 2023	GROUP 2022
	$m	$m
Capital expenditure commitments:		
Not later than one year	657.7	434.7
Later than one year but not later than five years	840.6	873.7
	1,498.3	**1,308.4**

19. LEASES

The Group has lease contracts for various items of property, plant, machinery, vehicles and other equipment used in its operations. Leases of plant and machinery generally have lease terms between 1 and 5 years. The Group's obligations under its leases are generally secured by the lessor's title to the leased assets. There are several lease contracts that include extension and termination options, which is discussed further below.

The Group applies the recognition exemption for assets when it enters into leases with lease terms up to 12 months. The total cost of 'short-term leases' for the year included within 'Other Operating Expenses' in Note 3 was $nil (2022: $0.1m). The Group applies the recognition exemption for low-value assets when it enters into leases for the low-value assets.

Determining the lease term of lease contracts with renewal options

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

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

Estimating the incremental borrowing rate

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

Right-of-use assets

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

- Plant & Equipment 1 – 12 years
- Motor vehicles 1 – 5 years
- Property 1 – 25 years

19. LEASES (continued)

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

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

2023	Property	Ships	Plant and Machinery	Motor Vehicles	Other Equipment	Total
Cost/Valuation	$m	$m	$m	$m	$m	$m
As at 1 July 2022	**40.5**	**12.4**	**3.3**	**1.5**	**0.2**	**57.9**
Additions	50.3	-	6.0	5.6	7.8	69.7
Purchase option exercised	-	(11.5)	-	-	-	(11.5)
Depreciation expense	(12.0)	(0.9)	(0.8)	(1.2)	(1.3)	(16.2)
Impairment reversal	5.3	-	6.7	2.6	0.3	14.9
As at 30 June 2023	**84.1**	**-**	**15.2**	**8.5**	**7.0**	**114.8**

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

Lease liabilities

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

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

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

Set out below are the carrying amounts of lease liabilities (included in Note 12) and the movements during the period:

	GROUP 2023	GROUP 2022
	$m	$m
As at 1 July	**76.6**	**82.8**
Additions	73.9	22.3
Accretion of interest	7.3	3.0
Payments	(35.4)	(31.5)
As at 30 June	**122.4**	**76.6**

19. LEASES (continued)

Group as a Lessor

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

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Assets leased to third parties under operating leases are classified as investment properties (Note 13). Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term and is included in revenue in net surplus or deficit due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

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

	GROUP 2023	GROUP 2022
	$m	$m
Total minimum lease payments receivable:		
Not later than one year	43.2	39.7
Later than one year but not later than five years	137.2	134.6
Later than five years	334.9	318.5
	515.3	**492.8**

For the year ended 30 June 2023, $52.1m was recognised as revenue in net surplus (2022: $47.9m).

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

	GROUP 2023	GROUP 2022
	$m	$m
Net (deficit) after taxation	(770.6)	(452.1)
Add/(deduct) items classified as investing or financing activities		
(Gain)/loss on sale of assets	(1.4)	1.6
Fair value movement in derivatives	7.3	(14.0)
Capital grant receipts	(245.6)	(316.7)
National Land Transport Fund receipts	(277.7)	(154.3)
Insurance proceeds	(1.8)	(11.1)
	(1,289.8)	(946.6)
Add/(deduct) non-cash items		
Depreciation and amortisation expense	143.7	165.5
Movements in provisions	(2.1)	(3.5)
Impairment of non-financial assets	1,425.4	777.2
Movement in fair value of investment properties	3.8	-
	281.0	(7.4)
Add/(deduct) movements in working capital		
(Increase) in trade receivables	(2.4)	(11.1)
(Increase) in other receivables	(95.5)	(30.0)
(Increase) in inventories	(43.1)	(24.4)
Increase/(decrease) in trade payables	63.1	(30.7)
(Decrease)/increase in other payables	(49.7)	162.2
Net cash flows from operating activities	**153.4**	**58.6**

21. RELATED PARTY TRANSACTIONS

Aside from the core lease agreement with NZRC (Note 17), the Group enters into transactions with related parties all of which are on normal commercial terms. Transactions that occur within a normal supplier or client/recipient relationship, on terms and conditions no more or less favourable than those which it is reasonable to expect the Parent or its subsidiaries and associates would have adopted if dealing with that entity at arm's length in the same circumstance, are not disclosed.

Significant transactions with Government-related entities

The Group has been provided with equity from the Crown as disclosed in Note 22 and capital grant funding from Government-related entities as disclosed in Note 4.

The Group also receives operating revenue and purchases goods and services from entities controlled, significantly influenced, or jointly controlled by the Crown in the normal course of business which have not been separately disclosed. The Group is required to pay various taxes and levies (such as GST, FBT, PAYE, ACC levies and Custom duties) to the Crown and entities related to the Crown. The payment of these taxes and levies is based on the standard terms and conditions that apply to all tax and levy payers.

Transactions with key management personnel

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

21. RELATED PARTY TRANSACTIONS (continued)

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

	GROUP 2023	GROUP 2022
	$000	$000
Key management personnel compensation		
Short-term employee benefits	5,877	8,298
Termination benefits	241	-
Other	810	-
Total key management personnel compensation	**6,928**	**8,298**

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

	GROUP 2023	GROUP 2022
KHL Directors	$000	$000
David McLean	89	45
Susan McCormack	57	73
Bruce Wattie	47	47
Mike Williams	42	42
Rachel Pinn	42	42
Maryan Street	42	-
Edward Sims	24	-
Robert Jager	23	-
Elizabeth Ward	7	-
Maxine Moana-Tuwhangai	14	42
Hazel Armstrong	-	42
Noel Coom	-	47
	387	**380**

Maryan Street was appointed as Director on 8 July 2022. Edward Sims and Robert Jager were appointed as Directors on 20 December 2022. Elizabeth Anne Ward was appointed as Director on 1 May 2023. Maxine Moana-Tuwhangai completed her term as Director on 31 October 2022. Mike Williams completed his term as Director on 31 July 2023.

22. SHARE CAPITAL

At 30 June 2023, the Group had issued 4,324,747,072 ordinary shares with no par value (2022: 3,470,404,088), 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 2023	GROUP 2022
	(m)	(m)
Opening balance	3,470.5	2,811.7
Shares issued	854.3	790.8
Share buy-back	-	(132.0)
Balance at 30 June	**4,324.8**	**3,470.5**

23. FAIR VALUE

(a) Classification of Financial Instruments

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

	GROUP 2023	GROUP 2022
FINANCIAL ASSETS	$m	$m
Loans and receivables		
Cash and cash equivalents and short-term deposits	286.2	170.2
Trade and other receivables (excluding prepayments)	240.8	154.1
	527.0	**324.3**
Fair value through net surplus or deficit		
Derivative financial assets	**2.2**	**20.9**
FINANCIAL LIABILITIES		
Amortised cost		
Trade and other liabilities	255.1	167.5
Interest-bearing liabilities	148.8	105.6
	403.9	**273.1**
Fair value through net surplus or deficit		
Derivative financial liabilities	**1.1**	**1.2**

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 (2022: nil).

23. FAIR VALUE (continued)

(b) Fair Value Hierarchy (continued)

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

(i) Derivative financial instruments

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

	Level 2	
Financial instruments Net Asset/ (Net Liability)	**GROUP 2023**	**GROUP 2022**
	$m	$m
Commodity forward contracts	(0.5)	4.4
Foreign currency forward contracts	69.0	59.9
Interest rate swaps	12.6	12.7
	81.1	**77.0**

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

The Group uses discounted cash flow techniques to estimate the fair value of its financial instruments. Inputs for the discounted cash flow calculations are derived from market observable data or where such data is not available, from information provided by banking counterparties. A Credit Value Adjustment is made to the underlying interest rate swap curve to adjust for counterparty credit risk.

(ii) Non-financial assets

The fair values and the hierarchy of the non-financial assets that are carried at fair value were:

Non-financial assets	**GROUP 2023**	**GROUP 2022**
	$m	$m
Investment property (Level 2)	106.4	98.7
Buildings (Level 2)	92.8	65.9
Railway infrastructure (Level 2)	241.4	324.2
Rolling stock (Level 2)	610.6	586.0
	1,051.2	**1,074.8**

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

23. FAIR VALUE

(b) Fair Value Hierarchy (continued)

Highest and best use of a non-financial asset takes into account the use of the asset that is physically possible, legally permissible and financially feasible. It is determined from the perspective of market participants, even if the Group intends a different use. For assets measured using the revaluation model under NZ IAS 16 *Property, Plant and Equipment* ("NZ IAS 16"), valuations are carried out with sufficient regularity to ensure that the carrying values do not materially differ from their fair values. The fair value of assets to which NZ IAS 40 *Investment Property* ("NZ IAS 40") applies is measured at each reporting date.

The valuation techniques used to determine the fair value of non-financial assets are:

- *Investment property*
  Investment property is measured at fair value under NZ IAS 40. The most recent valuations were carried out as at 30 June 2023 by an independent valuer who has recognised and relevant qualifications.

  Investment properties are valued using the capitalisation of net income and direct comparison approaches. Market derived assumptions used in the valuations include comparable rental and sales evidence, capitalisation rates and land values.

  The independent valuer has used valuers familiar with the local property market relevant to each property. This ensures local inputs are factored into the valuations.

  The capitalisation rates used in the valuation range from 5% to 15%.

- *Buildings*
  Buildings are properties held to carry-out the Group's entity-specific operations and hence are classified as property, plant and equipment and measured using the revaluation model under NZ IAS 16. The most recent valuation of buildings that form part of the Rail CGU was carried out as at 30 June 2023 by an independent valuer who has recognised and relevant qualifications.

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

  - *Specialised buildings* that have no readily available market and exist strictly to carry out the Group's unique operations are valued using optimised depreciated replacement cost. Further judgement is applied when assessing impairment at the CGU level. If specialised buildings do not have a market value and the CGU is valued based on FVLCD (refer Note 8), then consideration is given to the potential market value of those specialised buildings. This assessment resulted in an adjustment to the initial valuation of some specialised buildings.
  - *Non-specialised buildings* that could be sold with relative ease are valued at market value, using an income approach.

- *Railway infrastructure*
  Railway infrastructure is measured using the revaluation model under NZ IAS 16. The most recent valuation of railway infrastructure included in the Rail CGU was carried out as at 30 June 2023 by an independent valuer who has recognised and relevant qualifications.

  In carrying out the valuation, the valuer assumed an orderly liquidation of the assets to derive a scrap value. The scrap value is determined by the realisable value of the materials used to construct the asset. Market values such as steel prices, scrap metal rates and sleeper pricing are considered. Some asset classes within railway infrastructure are assigned a scrap value of zero on the basis the cost to remove the asset would exceed any scrap material value.

23. FAIR VALUE

(b) Fair Value Hierarchy (continued)

- *Rolling stock*
  Rolling stock is measured using the revaluation model under NZ IAS 16. The most recent valuation of rolling stock included in the Rail CGU was carried out as at 30 June 2023 by an independent valuer who has recognised and relevant qualifications.

  In carrying out the valuation, the valuer assummed an orderly liquidation of the assets to derive a net realisable and scrap value for each asset. The net realisable value is determined by replacement cost information based on quotes, recent capitalised costs, discussions with manufacturers, cost to capacity analysis and research. Market values such as steel prices and scrap metal rates are considered in determining the scrap value. The higher of the net realisable value or scrap value is adopted as fair value.
- *Other non-financial assets*
  As discussed within note 8(c) above, FVLCD is the measurement used for impairment testing. To determine the FVLCD of the assets held at cost, being ships, plant and equipment, assets under construction, right-of-use assets, intangible assets and prepayments, they were fair valued within the CGU's using both Level 2 and Level 3 inputs.
  - *Ships (Level 2)* are measured based on the most recent valuation of the ship fleet undertaken by an independent international ship broker who has recognised and relevant qualifications. In carrying out the valuation, the valuer used a market approach and factors considered include worldwide shipbuilding capacity and second-hand tonnage availability.
  - *Plant and equipment (Level 2)* is evaluated by the Group to determine whether its carrying amount represents fair value or that fair value is nil. Factors considered in making this determination include the nature of the plant and equipment and available pricing for the same or similar assets.
  - *Assets under construction (Level 2)* are evaluated by the Group to determine whether the carrying amount of assets under construction relating to the renewal and refurbishment of existing assets or the acquisition of new assets represents fair value or that fair value is nil. Factors considered in making these determinations include fair value information available for the same or similar assets, the presence of a market for the assets under construction, future cash flows, project business case and stage of completion.
  - *Right-of-use assets (Level 2)* are evaluated by the Group using the present value calculation of the forecast lease payments for the remaining lease term at the reporting date. Inputs to this calculation are interest rates for timeframes that reflect the lease terms and the Group's current borrowing margin for operating lease arrangements.
  - *Intangible assets (Level 3)* are evaluated by the Group and determined to have nil fair value. Judgement applied in making this determination is that there is no second hand market for the Group's computer software applications which are largely designed for their purpose.
  - *Prepayments (Level 2)* that are progress payments for the procurement of new assets within the Rail and Interislander CGU's are not impaired as their carrying value is assumed to represent fair value. Factors considered in making this determination include the stage of completion, project business case, current market conditions and the nature of the payments.

The above disclosures as it relates to the valuation techniques and fair value of rail infrastructure and rolling stock were not included in the prior year financial statements. These additional disclosures equally applies to the prior year valuation of rail infrastructure and rolling stock.

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 while protecting future financial security.

(a) Market Risk

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

24. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

(a) Market Risk (continued)

(i) Foreign Exchange Risk or Currency Risk

Foreign exchange risk is the risk of cash flow volatility caused by movements in foreign exchange rates to which the Group may be exposed. The Group is exposed to foreign exchange risk from operating transactions and capital purchases.

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

The New Zealand Dollar notional principal amounts of outstanding forward foreign exchange contracts as at 30 June 2023 were $1,244.6m (2022: $1,225.3m).

The Group has hedged 100% (2022: 100%) of committed foreign currency capital purchases.

Financial instruments foreign currency sensitivity analysis

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

	GROUP 2023		GROUP 2022	
In NZ $m	**Equity**	**Profit**	**Equity**	**Profit**
Impact of a 10% strengthening of the NZD	(110.9)	(4.1)	(108.6)	(1.0)
Impact of a 10% weakening of the NZD	135.5	5.1	132.7	1.2

(ii) Interest Rate Risk

Interest rate risk is the risk that the Group's cost of funds increase due to increases in interest rates.

The Group has a mix of fixed and floating rate debt denominated in New Zealand Dollars. The Group hedges its re-pricing profile using interest rate swaps in accordance with its Treasury Management Policy to provide funding cost certainty.

The total notional principal amounts of outstanding interest rate swaps as at 30 June 2023 was $225m (2022: $241.0m), with average term to maturity of 6.40 years (2022: 6.92 years) and a weighted average fixed interest rate of 2.20% (2022: 2.46%). As at 30 June 2023, after taking into account the effect of the interest rate swaps, approximately 45.0% of the Group's drawn loans are at a fixed rate of interest (2022: 87.5%). In addition, the Group has entered into positions to fix 50% of the interest rate risk associated with the committed syndicated loan facility (2022: 50%).

Interest rate sensitivity analysis

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

In NZ $m	GROUP 2023 Equity	GROUP 2022 Profit
Impact of a 100 bp interest rate increase	5.7	4.9
Impact of a 100 bp interest rate decrease	(6.2)	(6.4)

24. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

(a) Market Risk (continued)

(i) Price Risk

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

Fuel Price Risk

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

The Group is party to commodity forward contracts for Singapore intermediate fuel oil and gas oil. The total notional principal amount of outstanding commodity forward contracts is $12.2m at 30 June 2023 (2022: $9.4m).

(b) Credit Risk

Credit risk is the potential loss from a transaction in the event of default by a counterparty during the term of the transaction or on settlement of the transaction. The primary financial instruments that subject the Group to credit risk are cash and cash equivalents, trade and other receivables and commodity and foreign currency forward contracts.

The Group is exposed to counterparty risk when entering into investment and hedging instruments with individual counterparties. The Group's Treasury Management Policy requires counterparties to have a minimum long-term rating of A (Standard & Poor's) or A2 (Moody's) or Fitch equivalent. If there is an actual or expected change or downgrade of a counterparty's credit rating then an impairment assessment is undertaken as at the reporting date to identify if there has been a significant increase in risk.

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

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

Concentration of credit risk

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

Credit quality of assets not impaired or not yet due

The Group has a large number of customers so does not rate its individual debtors. 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.

24. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

(b) Credit Risk (continued)

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 relevant interest rate at the balance date. The amounts disclosed are the contractual undiscounted cash flows.

GROUP 2023	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	255.1	255.1	255.1	-	-	-
Net settled derivative liabilities	3.0	5.6	1.9	2.1	1.6	-
Leases	122.4	164.4	29.3	24.9	53.8	56.3
Loans	25.0	29.5	1.8	1.7	26.0	-
Total	**405.5**	**454.6**	**288.1**	**28.7**	**81.4**	**56.3**

GROUP 2022	Carrying amount	Contractual cash flows	Less than 1 year	1 – 2 years	2 – 5 years	More than 5 years
	$m	$m	$m	$m	$m	$m
Financial Liabilities						
Trade and other payables	167.5	167.5	167.5	-	-	-
Net settled derivative liabilities	11.9	12.0	1.5	3.3	7.2	-
Leases	76.6	96.5	32.3	11.8	23.6	28.8
Loans	29.0	32.4	5.0	0.9	26.5	-
Total	**285.0**	**308.4**	**206.3**	**16.0**	**57.3**	**28.8**

24. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

(d) Derivative Financial Instruments and Hedging Activities

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

The risk management objectives and strategy for undertaking various hedge transactions is covered by the Treasury Management Policy.

Hedge Accounting

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

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

Derivatives in hedge relationships are designated based on a hedge ratio up to 1:1. In these hedge relationships the main source of ineffectiveness is the effect of the counterparty and the Group's own hedged item attributable to changes in foreign exchange and interest rates.

Cash flow hedges

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

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

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

24. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

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

At 30 June 2023, the Group held the following instruments to hedge exposures to changes in foreign currency and interest rates:

GROUP 2023	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Foreign Currency Risk				
Forward Exchange Contracts				
Net Exposure (in NZD$m)	477.18	721.32		
Average NZD:USD forward contract rate	0.65	0.67		
Average NZD:AUD forward contract rate	0.91	0.90		
Average NZD:EUR forward contract rate	0.56	0.53		
Average NZD:CFH forward contract rate	0.65	0.67		
Interest Rate Risk				
Interest Rate Swaps				
Net Exposure (in NZD$m)		50.00		175.00
Average Fixed Interest Rate (in %)		2.00		2.28

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

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

	GROUP 2023	GROUP 2022
	$m	$m
Opening balance at 1 July	68.1	(41.5)
Gain/(loss) recognised in other comprehensive income	11.3	109.6
Total movements to other comprehensive income	11.3	109.6
Closing balance at 30 June	**79.4**	**68.1**

24. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

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

Other amounts deferred in equity will be transferred to the carrying amount of the relevant asset when it is recognised, which is expected to occur over the next three years (2022: four years).

The details of the hedging instruments are as follows:

GROUP 2023	Notional amount of hedging instrument	Statement of Financial Position line item	Carrying amount of the hedging instrument		Change in fair value used for calculating hedge ineffectiveness
			Assets	Liabilities	
			$m	$m	$m
Cash flow hedges					
Foreign Currency Risk	NZD 1,198m	Financial Assets/Liabilities	69.4	(2.0)	67.4
Forward foreign exchange contracts					
Interest Rate Risk					
Interest rate swap contracts	NZD 225m	Financial Assets/Liabilities	12.6	-	12.6

GROUP 2022	Notional amount of hedging instrument	Statement of Financial Position line item	Carrying amount of the hedging instrument		Change in fair value used for calculating hedge ineffectiveness
			Assets	Liabilities	
			$m	$m	$m
Cash flow hedges					
Foreign Currency Risk					
Forward foreign exchange contracts	NZD 1,218m	Financial Assets/Liabilities	68.1	(10.8)	58.8
Interest Rate Risk					
Interest rate swap contracts	NZD 225m	Financial Assets/Liabilities	12.8	-	12.8

24. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

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

The details of the hedge items are as follows:

GROUP 2023	Change in fair value for calculating hedge ineffectiveness	Cash Flow Hedge Reserve
	$m	$m
Cash flow hedges		
Foreign Currency Risk		
Committed foreign exchange transactions	64.7	66.9
Interest Rate Risk		
Committed interest rate transactions	12.9	12.6

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

(e) Capital Risk Management

The Group manages its capital structure to ensure it is continues as a going concern while maximising its investment in rail infrastructure and rolling stock assets. The State-Owned Enterprises Act 1986 requires the Group to have a principal objective of operating as successful business, which includes being as profitable and efficient as comparable businesses that are not owned by the Crown.

The capital structure of the Group consists of loans, cash and cash equivalents and equity. Equity comprises share capital provided by the Crown, retained earnings and reserves.

The Board reviews the Group's capital structure as part of it's planning cycle and regular on-going reviews. The reviews include analysis to confirm that the level of capital invested in the business continues to be sufficient to enable it to effectively achieve its objectives and purpose.

25. IMPACT OF WEATHER EVENTS

In February 2023 Cyclone Gabrielle swept across the North Island of New Zealand causing significant damage to the Group's infrastructure assets.

The Group has insurance coverage in place under an operational infrastructure and consequential loss policy ("the Policy"). Cover is provided for loss and damage up to a sum insured of $350m. While a final claim has not been submitted as at 30 June 2023, the Group has notified the underwriters of its intention to make claims under the Policy. The Group has recognised a receivable of $50m for insurance progress payments committed to as at 30 June 2023. These progress payments met the recognition criteria for a receivable as at 30 June 2023. These payments are not specific to a particular loss or damage, but will be allocated to the claim in due course. As at 30 June 2023 it is not practicable to estimate the full extent of the overall insurance recovery and therefore a receivable for potential insurance proceeds, over and above the $50m progress payments, has not been recognised in the financial statements.

26. CONTINGENT LIABILITIES

As at 30 June 2023, the Group is party to a dispute which was raised through the Employment Relations Authority and has been appealed to the employment court. There is an on-going litigation on this matter and the potential liability cannot be provided with certainty as of now.

27. EVENTS SUBSEQUENT TO BALANCE DATE

The Inter-island Resilient Connection (iReX) programme will provide a resilient, sustainable Cook Strait transport connection with capacity and growth as noted in note 8 (c). A comprehensive review of the programme in 2023 identified an increase in the cost to construct the terminal infrastructure and a consequential shortfall in the funding needed to complete the programme in its preferred form.

The Board has been in discussions with the Group's shareholder about options to address the cost increase and funding shortfall, and on 19 September 2023 the shareholder advised the Board of funding options that will ensure the programme can continue. The Board will continue the discussions with the shareholder and officials. This matter will not be resolved before the signing of these financial statements. However, the quantum of the current impairment of the Interislander CGU will not be impacted by the outcome of the discussions.

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 2023

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

Opinion

We have audited the financial statements of the Group on pages 63 to 103, that comprise the statement of financial position as at 30 June 2023, 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 2023; 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 29 September 2023. This is the date at which our opinion is expressed.

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

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

Without modifying our opinion, we draw attention to Note 1(e) on page 68 which outlines the Board of Directors' judgement in designating the Group as a for-profit entity for financial reporting purposes, and the factors that the Board considered in forming this view. This includes the principal objective of KiwiRail Holdings Limited under the State-Owned Enterprises Act 1986 to operate as a successful business, including being as profitable and efficient as comparable businesses that are not owned by the Crown. The disclosure outlines the impact of this designation on the carrying value of the Group's property, plant and equipment and the substantially higher value that these assets are reported at in the Financial Statements of the Government because the Government is a public benefit entity for financial reporting purposes.

Basis for our opinion

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

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

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

Responsibilities of the Board of Directors for the financial statements

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

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

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

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

Responsibilities of the auditor for the audit of the financial statements

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

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

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

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

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

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

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 1 to 62 and page 106, but does not include the financial statements, and our auditor's report thereon.

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

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

Independence

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

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

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

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Further information

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KiwiRail