

Independent Limited Assurance Report to the Directors of KiwiRail Limited (“KiwiRail”)

Assurance conclusion

Based on our limited assurance procedures, as described in this statement as of 27 August 2021, nothing has come to our attention to cause us to believe that KiwiRail’s Green Borrowing Framework and the Inter-island Resilient Connection (“iReX”) Project is not in alignment with the pre-issuance 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).

Emphasis of Matter

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

Scope

Ernst & Young Limited (‘EY’, ‘we’) was engaged by KiwiRail to undertake a limited assurance engagement, as of 11 June 2021, in relation to the iReX Project and KiwiRail’s proposed green loan (‘the Loan’ or ‘Green Loan’). This includes limited assurance of KiwiRail’s Green Borrowing Framework against the Climate Bonds Standard Version 3.0: Pre-issuance Requirements, and limited assurance of the technical information on the iReX Project against the technical requirements of the CBI Shipping Criteria.

Subject Matter and Criteria

The subject matter and associated criteria for this limited assurance engagement are set out in the table below.

Subject Matter	Criteria
<p>The subject matter for this limited assurance engagement includes:</p> <ul style="list-style-type: none"> ▶ KiwiRail’s Green Borrowing Framework ▶ Technical information on the iReX Project 	<p>The CBI Climate Bonds Standard Version 3.0 (December 2019) Pre-Issuance Requirements on:</p> <ul style="list-style-type: none"> ▶ Use of Proceeds ▶ Process for Evaluation and Selection of Projects & Assets ▶ Management of Proceeds ▶ Reporting Prior to Issuance <p>Criteria found at: Climate Bonds Standard Version 3.0 2019</p> <p>The CBI Climate Bonds Taxonomy (January 2021) (“CBI Taxonomy”)</p> <ul style="list-style-type: none"> ▶ Transport <p>Criteria found at: Climate Bonds Taxonomy (January 2021)</p> <p>The Shipping Criteria for the Climate Bonds Standard & Certification Scheme (September 2020) (“CBI Shipping Criteria”)</p> <ul style="list-style-type: none"> ▶ Assets and projects that can be assessed under these criteria ▶ Mitigation criteria for vessels ▶ Managed reduction plans ▶ Disclosure <p>Criteria found at: The CBI Shipping Criteria – Criteria Document (September 2020)</p>

Management Responsibility

The management of KiwiRail is responsible for the preparation and fair presentation of the Subject Matter. This responsibility includes establishing and maintaining internal controls relevant to the preparation and presentation of the Subject Matter that is free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making estimates that are reasonable in the circumstances.

Assurance Practitioner's Responsibility

Our responsibility is to express a conclusion on whether anything has come to our attention that causes us to believe that the Subject Matter, has not been presented, in all material respects, fairly and in accordance with the criteria detailed above. Our assurance engagement has been planned and performed in accordance with the International Standard on Assurance Engagements (New Zealand) 3000: *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* ('ISAE (NZ) 3000').

Level of Assurance

Procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. While we considered the effectiveness of management's internal controls when determining the nature and extent of our procedures, our assurance engagement was not designed to provide assurance on internal controls. Our procedures did not include testing controls or performing procedures relating to checking aggregation or calculation of data within IT systems.

Our Approach

Our assurance procedures performed included, but were not limited to:

- ▶ Assessing the Green Borrowing Framework against the CBI Climate Bonds Standard Version 3.0
- ▶ Assessing technical information on the iReX Project against the technical requirements of the CBI Shipping Criteria.
- ▶ Requesting documentation supporting assertions made in the Subject Matter
- ▶ Seeking management representation on key assertions.

Limitations

There are inherent limitations in performing assurance – for example, assurance engagements are based on selective testing of the information being examined – and it is possible that fraud, error, or non-compliance may occur and not be detected. There are additional inherent risks associated with assurance over non-financial information including reporting against standards which require information to be assured against source data compiled using definitions and estimation methods that are developed by the reporting entity. Finally, adherence to ISAE (NZ) 3000 is subjective and will be interpreted differently by different stakeholder groups.

Our assurance was limited to KiwiRail's pre-issuance of the iReX Project and KiwiRail's proposed Green Loan and did not include statutory financial statements. Our assurance is limited to policies and procedures in place as of 27 August 2021, ahead of the issuance of the Loan. The firm has no other relationship with, or interests in, KiwiRail.

Use of Our Limited Assurance Engagement Report

This Report has been prepared for the Management and Directors of KiwiRail and for the Climate Bonds Initiative, for the sole purpose of reporting on KiwiRail's Green Borrowing Framework and technical information on the iReX Project and compliance with the Climate Bonds Standard Version 3.0 and the technical requirements of the CBI Shipping Criteria. Accordingly, we disclaim any assumption of responsibility for any reliance on this report to any persons or users other than the intended users, or for any purpose other than that for which it was prepared.

Our Independence and Assurance Team

In accordance with APES 110 *Code of Ethics for Assurance Practitioners*, the firm and all professional personnel involved in this engagement have met the independence requirements of New Zealand or International professional ethical requirements. Our team has the required competencies and experience for this assurance engagement.

Observations on Particular Aspects of Our Engagement:

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

Use of Proceeds:

- ▶ Proceeds from green financial instruments issued under this framework are being applied to the iReX Project that promotes the transition to a low carbon and climate resilient economy.
- ▶ The value of any green financial instruments issued under the framework would be covered at least 1.0 times by the value of the assets/projects KiwiRail are financing.
- ▶ At present the only assets that are being considered to be financed by a green loan are two rail-enabled diesel-electric ferries.
- ▶ These ferries are required to meet the eligibility criteria, which specifies ferries must have the following features:
 - ▶ Aligned to both the CBI Taxonomy “waterborne” category the CBI Shipping Criteria
 - ▶ Achieve a 40% reduction in CO₂-e emissions vs. the FY12 baseline emissions figure for the current vessels
 - ▶ Batteries for peak shaving, in port, while manoeuvring, sailing out of port
 - ▶ Diesel fuel, with 0.1% SO_x content
 - ▶ Future proof public transport for alternative power production, i.e. electric batteries, and alternative fuel cell.
 - ▶ Switch to fully electric engines in the future to ensure the assets stay below the net zero emissions by 2050 trajectory defined for RoPax¹ ferries by the CBI Shipping Criteria.

Managed Reduction Plans

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

Process for Project Evaluation and Selection of Projects & Assets

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

Management of Proceeds

- ▶ KiwiRail has developed a Green Borrowing Committee to manage the allocation of proceeds from green financial instruments to ensure they are in line with the framework's criteria.
- ▶ The Green Borrowing Committee is required to report to the Risk and Audit Committee on the status of KiwiRail's Green Borrowing Framework.
- ▶ KiwiRail has implemented processes to manage proceeds received from green financial instruments and to monitor the on-going use of proceeds. These processes include:
 - ▶ A tracking process through existing internal systems to ensure funds are allocated or earmarked for nominated projects & assets.
 - ▶ Establishing a green borrowing register to provide information on green financial instruments and assets issued under the framework.
 - ▶ Manage unallocated funds in an appropriate way until such time as they can be allocated to a nominated project or asset.

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

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

Reporting and Disclosure

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

Ernst & Young Limited



Pip Best
EY New Zealand Climate Change and Sustainability Service Partner
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