



# Playing Our Part in New Zealand's Recovery







*KiwiRail is moving ahead with the procurement of two new rail-enabled sister ships to replace its ageing Interislander ferry fleet.*

Front cover image: KiwiRail staff working at night in Mt Eden. KiwiRail is working with Auckland Transport and Waka Kotahi NZ Transport Agency to modernise the Auckland metro rail network.



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STRONGER CONNECTIONS.

90%

On-time performance for all freight

18 MILLION

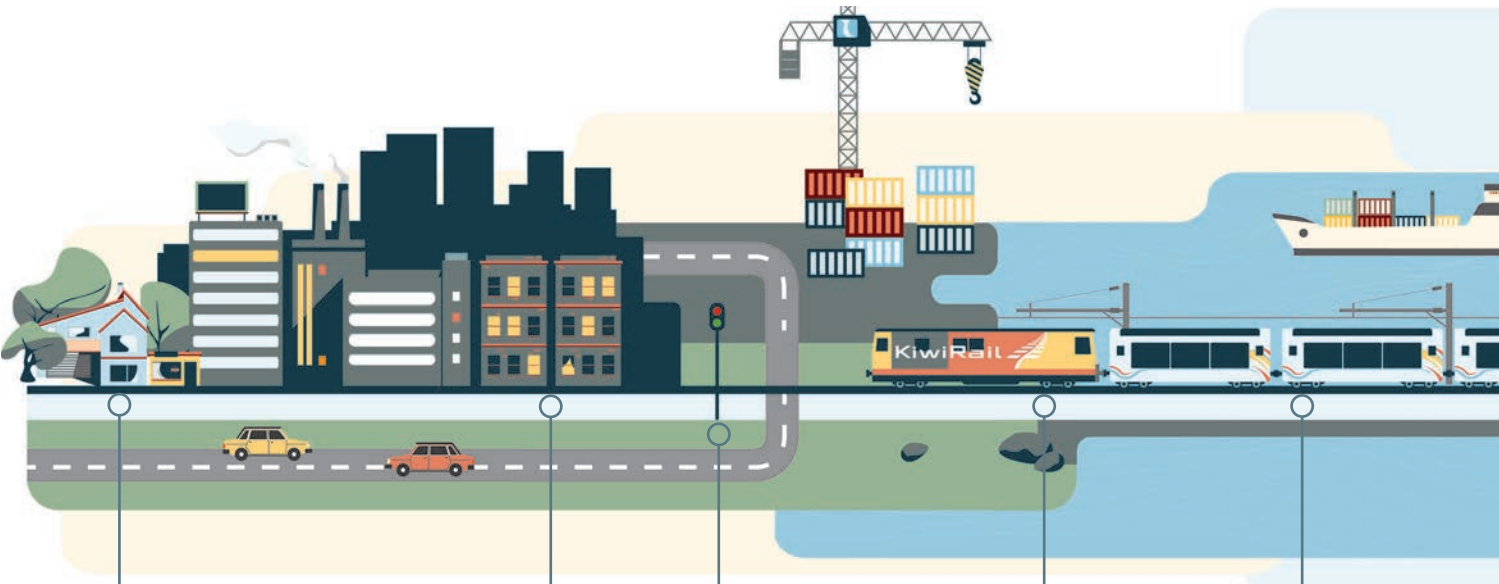
We move more than 18 million tonnes of freight each year

28 MILLION

We help commuters make 28 million low-carbon journeys each year

ONE MILLION

We carry around one million tourist passengers in a typical year



- Manage more than 17,800 hectares of land
- Own more than 1,350 buildings
- Manage 10,000+ leases, licenses and grants

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

- 3,700 km of track operated and maintained
- 6m sleepers, of which 50% are concrete

- Over \$2.3 billion spent by KiwiRail and a range of funding partners, in renewal and upgrade of rail network, rolling stock, ferries and property over the last five years

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

COVID-19

We moved over 1.8 million tonnes of freight in level 3 and 4

# BETTER NEW ZEALAND.

**43,000**

Freight train  
departures  
each year

**12%\***

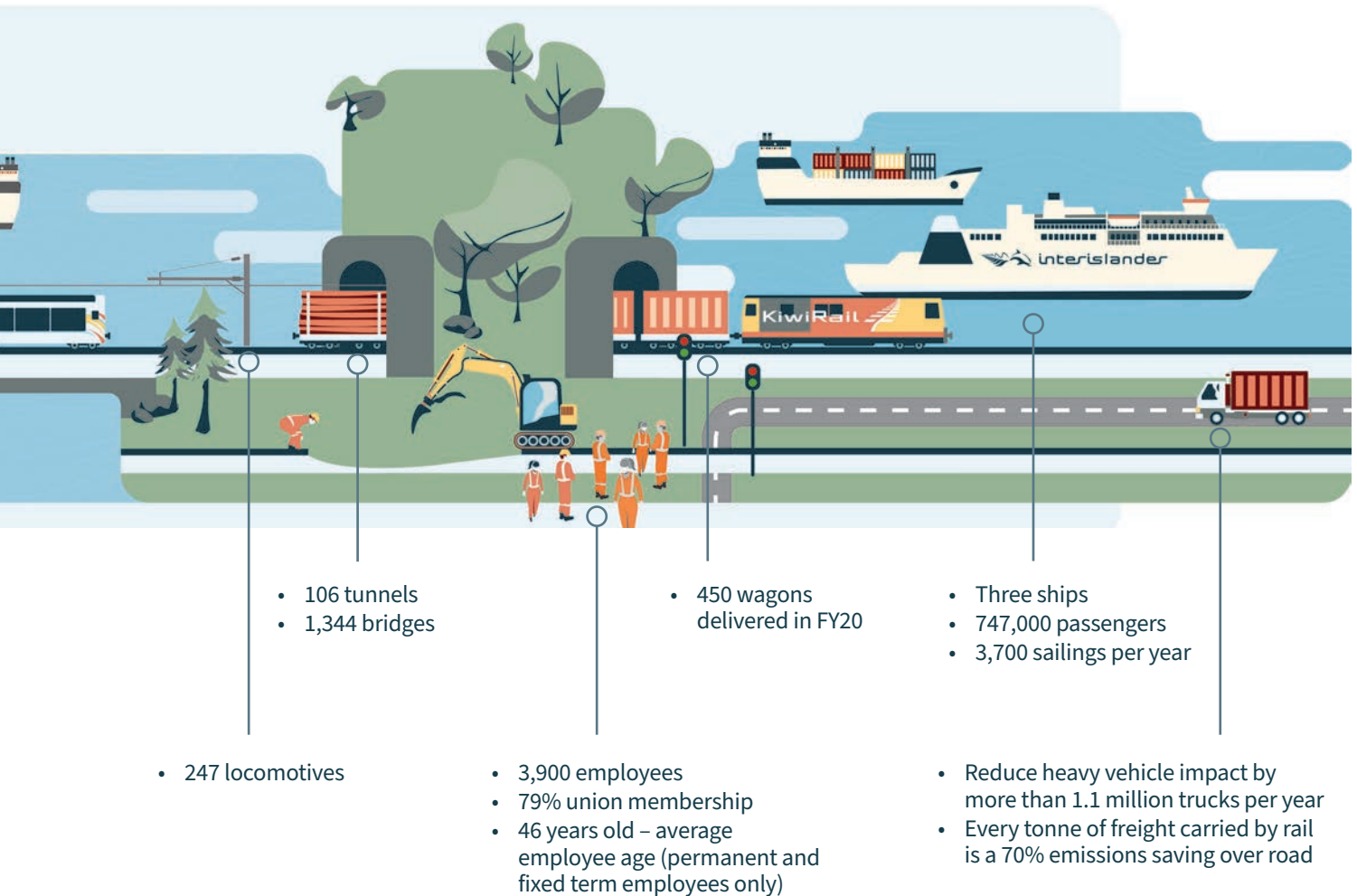
We carry around 12%  
of New Zealand's total  
freight task (tonnes-km)

**25%**

We transport around  
25% of New Zealand's  
exports

**\$1.5 BILLION**

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



\* The methodology for calculating truck activity has been revised in the 2017/18 NFDS, resulting in an increase in overall truck activity and a corresponding reduction in rail's share

\*\* The Value of Rail in New Zealand – 2016

## INTRODUCTION

This is an exciting but challenging time to be in rail. While interest in rail as an integral part of New Zealand's transport system is accelerating as communities consider ways to reduce emissions and congestion, KiwiRail is also having to deal with the impact of COVID-19 on its business and the nation's economy.

With the Government's investment in new ferries, rolling stock and network renewals through Budget 2019 and 2020 we are transforming and growing the business. We are supporting jobs in the cities and regions, readying the Auckland and Wellington urban networks for growth, and playing a strong part in New Zealand's post-Covid economic recovery. The new investment builds on the progress we are already



*KiwiRail helps commuters make more than 28 million low-carbon journeys each year.*



making to improve the operational efficiency of our business.

The value of rail delivers much more in addition to the traditional 'return on investment'.

We are developing a strategy that will enable our pathway to profit and double the value rail delivers to New Zealand. This will be achieved through growing our freight market share by moving into adjacent markets and improving the yield and profitability of the business, investment in regional growth, increasing commuter services, more ferry journeys, further commercial utilisation of our property portfolio, and increasing rail tourism. The successful operation of the rail network, particularly from Auckland to Christchurch, is critical in terms of increasing participation in freight task and delivering the Value of Rail. This will be achieved through maximising existing train capacity and network utilisation, as well as the addition of further trains to better leverage available network capacity. Key asset investments will deliver new resilient, reliable assets including locomotives, wagons, rail network, facilities and infrastructure, and ferries.

Additionally, a new planning and funding framework has been created for rail that takes a longer-term view. Due to a projected increase in freight volumes, growing road congestion and maintenance costs, and the need to meet emission reduction targets, rail is a critical part of our transport system. The new framework sets the right conditions to maintain our national rail network and provides a platform for further investment. Shifting more freight off roads and onto rail will have significant safety, congestion and environmental benefits.

Realising this growth for the benefit of New Zealand needs long-term sustainable funding. Crown investment is needed to restore a reliable and resilient rail network, and to provide a platform for KiwiRail's commercial growth and long-term sustainable results. We provide a low-carbon alternative for freight and

passengers and adapt to meet the changing needs of our existing and new customers. That has put us in the perfect position to help drive sustainable and inclusive growth for the country, and to help meet the nation's commitment to the Paris Accord and the transition to net zero carbon by 2050. It also means we are ready to play our part in rebuilding the post-Covid economy.

This is the first time KiwiRail has incorporated the six capitals from the Integrated Reporting Framework into its Statement of Corporate Intent. As an organisation of 3,900 people from 50 towns and cities across the country, providing freight and tourism services to all New Zealanders, along with making commuter services possible, creating value is at the heart of our decision making. This also brings our Statement of Corporate Intent in line with our Annual Integrated Report which uses the same capitals framework.

KiwiRail delivers value for New Zealand society through its integrated rail and ferry network. The six capitals – Financial; Assets; Human; Skills and Know-How; Relationships; and Environment – encapsulate the breadth of the work we do. Rail delivers approximately \$1.5 billion in value to New Zealand each year<sup>1</sup>. This value is derived from multiple benefits which include reduced congestion in our cities, improved environmental outcomes and road safety, the infrastructure we build and maintain, and the communities we connect.

This document highlights the strategic priorities which will drive our business forward, while supporting and investing in New Zealand's recovery and growth following the economy's return in the wake of Covid.

KiwiRail is registered as a State-Owned Enterprise (SOE) and operates within the policy and regulatory frameworks of the State-Owned Enterprises Act 1986 (the Act). This Statement of Corporate Intent (SCI) sets out the business objectives and performance targets for the three years to 30 June 2023 and is submitted by KiwiRail pursuant to Section 14 of the Act.

1. The Value of Rail in New Zealand - 2016

## NATURE AND SCOPE

KiwiRail, like many rail networks around the world, is a vertically integrated logistics and infrastructure business with above and below rail operations. The organisation optimises rail and ferry transport and supply chain networks for the efficient movement of freight and passengers within New Zealand.

We typically help commuters make more than 28 million low-carbon journeys each year and carry more than one million tourism passengers on our services including the Interislander ferries.

We stop at 24 towns and cities across New Zealand. We move more than 18 million tonnes of freight, carrying around 12 per cent<sup>2</sup> of New Zealand's total freight task and around 25 per cent of New Zealand's exports. However, the organisation faces challenges. Over the past four years events including the Covid global pandemic, the Kaikoura earthquake, fires on the West Coast line and increasing extreme weather events, have disrupted the services we offer, impacted our revenue streams, and added to the cost of doing business through increased safety, remediation, compliance and insurance costs.

We also continue to face the cost of a legacy of underinvestment in our bridges, tunnels, tracks and rolling stock outside the metropolitan commuter areas. Freight needs a similar “catch up” in investment to that which has been delivered to commuter services. The Government's investment and commitment to a reliable and resilient rail system will assist in putting KiwiRail on an even footing with other parts of the transport system, helping us to replace ageing ferries and locomotives, and it will allow the country to build a modern integrated multimodal transport network fit for the future.

Looking ahead, the business is focused on delivering our purpose “Stronger Connections, Better New Zealand”. This is underpinned by our core values.

We are committed to putting our customers at the centre of everything we do, providing a safe, efficient and reliable service, a Zero Harm workplace for our people and the public, as well as driving sustainable economic growth for New Zealand. We have a plan for a bigger, bolder role for rail - it is aspirational for KiwiRail, and it is aspirational for New Zealand.

## KIWIRAIL CORE VALUES



2. The methodology for calculating truck activity has been revised in the 2017/18 NFDS, resulting in an increase in overall truck activity and a corresponding reduction in rail's share.



## COVID-19 STRATEGIC RESPONSE

New Zealand's economy is undergoing an exceptional shock due to the Covid global pandemic. It has affected international and domestic markets, and like many New Zealand businesses, KiwiRail has been impacted by the consequences of the pandemic and the measures to combat it.

KiwiRail faces continued uncertainty around the timing and the extent of the economic recovery, making it difficult to forecast how the pandemic will play out in its primary markets. Given this uncertainty, KiwiRail will be continuously refining and remodelling its business and resetting our operations and commercial performance to align with the markets as they adjust to Covid.

In response, KiwiRail developed a four-stage strategic and tactical plan to be used as New Zealand moves through the government alert level system and to determine what our future services and operations will look like as we move forward.

**1 respond**



**2 stabilise**



**3 recover**



**4 thrive**



Our strategic response is underpinned by our overall purpose “Stronger Connections, Better New Zealand”. Never have we been more aligned to our purpose than in our response at Alert Level 4 where, as an essential service, our team united together to ensure continuity of our core services to support the movement of critical freight and essential workers throughout the country.

## MARKET OUTLOOK AND ECONOMIC ASSUMPTIONS

As a commercially focused SOE serving the freight and tourism markets, the outlook for KiwiRail is closely tied to the New Zealand and global economies. Along with the rest of the world, New Zealand's economy is currently under pressure due to the Covid pandemic. Economic activity was significantly restricted by the lockdown that occurred in April and May this year, and some businesses and industries continue to be affected by the restrictions in place at the lower Covid alert levels.

The most severe, ongoing impacts are on tourism-related industries due to the extended closure of New Zealand's borders. The restrictions on travel during the higher alert levels directly impacted the number of passengers able to move between islands on our Interislander ferries and the complete suspension of our scenic train services. As restrictions have been relaxed, there has been stronger demand. With New Zealanders facing indefinite international travel restrictions it is likely increased demand will be seen from the domestic market looking for alternative locally based holidays, notwithstanding the possibility of a Trans-Tasman bubble.

The domestic freight market was also hit hard initially as only essential products were able to be transported. The forestry and bulk sectors were impacted as non-essential services, but these quickly rebounded as New Zealand lowered its alert level status.

The import sector has been disrupted as the flow of goods has become uneven as shipping lines skip some ports due to labour restrictions. This has had a knock-on effect throughout the supply chain as the flow of containers, both full and empty, has been thrown out of equilibrium.

From an export perspective, dairy and meat exports have remained relatively unimpacted although the production



*KiwiRail plays a strong role in shifting freight throughout New Zealand using facilities like Southdown.*

processing was slowed due to social distancing requirements within processing plants.

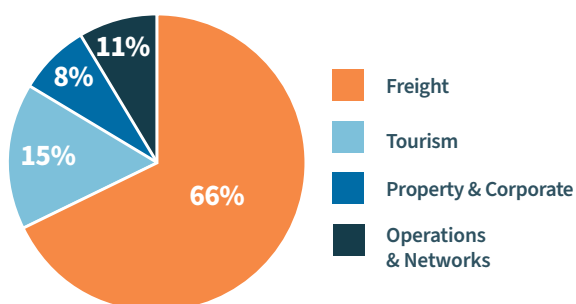
The prediction for the domestic market is a general slowdown as Gross Domestic Product (GDP) slows, with the flow of goods assumed to mirror the pace of the overall economy. In the medium term, the commodity-driven sectors such as dairy, forestry, and coal are facing

uncertainty as global commodity pricing responds to market conditions.

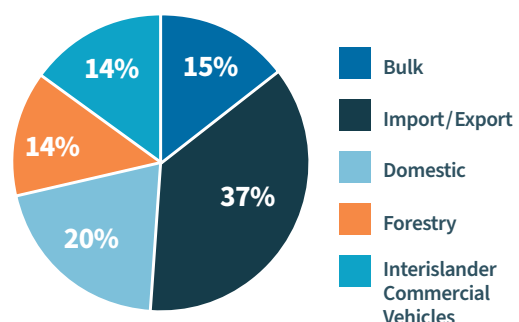
#### SECTOR OUTLOOK

The National Freight Demand Study (NFDS) captures the long-run outlook for the various freight sectors. Although the most recent NFDS (2018) does not fully update the 2014 NFDS, nor does it consider the impacts of Covid,

**TOTAL EXTERNAL REVENUE  
BY SERVICE LINE**



**FREIGHT TRADING REVENUE  
BY SECTOR**



The charts above show the source of KiwiRail's revenue budget for FY21, and a breakdown of KiwiRail's freight revenue by sector. In terms of freight revenue, it is worth noting that the non-commodity driven activities are where we can have the greatest degree of influence on our market share as these activities are less susceptible to price movements caused by external factors.



these studies can still be used to provide a sound basis as to what can be expected in the future. KiwiRail plays a strong role in the movement of import and exported goods to and from ports and the movement of domestic goods between warehouse distribution centres. The long-term outlook for the freight sector is projected to improve over time as predicted in the NFDS (2014 & 2018).

In KiwiRail we are extremely well placed to increase our role within the freight sector, particularly as we operate nationwide.

To achieve this will require investment in the regions, particularly in regional freight hubs and revitalising the rail network. The investment in some areas will need to be ahead of the projected growth, stimulating regional economies and providing opportunities for business to grow.

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

- **The Domestic market** for rail is the movement of time-sensitive freight from distribution centres and freight forwarders between major cities. Growth in this market is driven off the back of reliable and cost competitive services. Rail has reset its pricing over the last two years which has driven freight back to the mode most appropriate for the service and cost requirements. The health of the domestic economy is a key barometer for the growth in domestic freight volumes. Rail has been investing in equipment to keep it competitive with the high productivity motor vehicles (HPMV) road units which received significant productivity improvements after legislative changes have permitted heavier and longer road units.
- **Import/Export (IMEX)** remains stable in the short to medium term with supply chains slowly adapting to larger container ships and fewer port calls. KiwiRail ensures high levels of connectivity within the IMEX sector across the country. The impact on rail and the wider supply chain efficiency of proposed changes to the upper North Island port locations will need to be worked through in coming years.

- **Bulk** remains dominated by coal export levels and the overall demand for coal. Key decisions are pending with the end of the current coal contract with Bathurst Mining on the West Coast of the South Island.
- **Forestry** continues progress towards peak “Wall of Wood”, which is expected to be reached in the next 15-20 years. KiwiRail continues to play a valued role in keeping trucks off the road in many parts of regional New Zealand. We continue to work closely with the ports and forestry processors to identify opportunities to create log hubs to move forestry off road and onto rail. Softer export prices have lowered the volume of exports in the short-term. Diverting logs for domestic processing creates some opportunities for rail, but these are limited due to the proximity of the processing mills to the forests, which makes transporting by rail uneconomic.
- **The market for Commercial Vehicles** moving between islands on ferries is highly competitive. KiwiRail’s Interislander competes directly with Bluebridge. Interislander has a competitive advantage by having three larger vessels compared to Bluebridge’s two, allowing Interislander a higher frequency of sailings, an attribute the commercial vehicle market values.
- **Tourism** is split between travellers between the islands on the Interislander and KiwiRail’s Scenic trains. Following New Zealand’s traditional tourism patterns both are very seasonal. Prior to Covid, the Scenic trains relied on the international markets, which accounted for 65 per cent of passengers. The Interislander market is predominantly domestic with only 35 per cent of customers coming from overseas. The recent Government decision to invest in two new, larger, rail-enabled vessels is a major milestone in the future of the Interislander business as it transforms both its land and sea assets.

## STRATEGIC PRIORITIES

KiwiRail’s purpose is to connect people, networks, journeys, experiences and ways of working that move our customers, the transport system, and New Zealand

forward. Rail is a critical enabler for our economy, providing broad ranging benefits up and down our country, economically, socially and environmentally.

KiwiRail has set a long-term strategy for growth to double the value rail delivers to New Zealand. We will achieve this through our key strategic themes which include to: put the customer at the centre of everything we do and grow our revenue; optimise our commercial delivery; achieve Zero Harm, and be an employer of choice; deliver key capital projects to increase the value of rail; and, bring increasing sustainability benefits as we aim for net zero carbon.

These are ambitious goals both for New Zealand and for the 3,900 people throughout the country who make up KiwiRail, especially in the wake of the Covid pandemic. To position ourselves to deliver on our goals KiwiRail has set three-year targets to ensure we have fully integrated our operational teams to deliver maximum value for freight customers, achieved a digital transformation to ensure we are fit for the future and embedded a safety culture that we live every day.

Our customers and their customers are rightly demanding more from us. Ensuring we are an efficient, safe, reliable service provider for freight and passengers is critical to building enduring success. We are up for that challenge and the benefits it will bring.

The Government has signalled its strong support for rail and desire for a mode neutral, integrated national transport system where the benefits of rail, road and sea are optimised. Rail has a critical role to play in driving regional economies, assisting our tourism and export industries, connecting communities and reducing emissions. A major focus of our next three years is further improving our environmental footprint to help New Zealand achieve its carbon reduction goals; every tonne of freight carried by rail has 70 per cent fewer carbon emissions than heavy road freight.

What follows are KiwiRail's strategic priorities for the three years to 2023 to build the foundations for the long-term future. We have grouped them under the six capitals of the Integrated Reporting Framework, focusing our efforts on creating value for all of New Zealand.



*KiwiRail's ferries and trains shift freight as a part of an integrated national transport system.*



## FINANCIAL

KiwiRail, like most New Zealand companies, has been significantly affected by the impact of Covid in the year ended June 2020. The reduction in freight and passenger demand and services as a result of the outbreak made previous forecasts obsolete.

All Scenic services were suspended, and property income challenged by the difficult financial situation of some tenants. As a result, KiwiRail put extra emphasis on managing cash flow and funding.

KiwiRail has worked alongside government agencies to assist New Zealanders as much as possible during the crisis while also managing our own financial challenges.

KiwiRail moved quickly to adapt the business while keeping employees safe and maintaining essential services, including the Cook Strait link. This included ensuring that safety and protection clothing and equipment was available, implementing new safe working practices and ensuring business continuity, along with setting up staff to work from home where possible.

At Half Year 2020, operating revenue was 2 per cent higher than in 2019 and the business was working hard to reduce operating expenses in order to meet full-year operating surplus expectations.

Government investment remains key to ensuring that KiwiRail can deliver the safe and efficient running of the below rail network. Operating costs have increased markedly over the last few years particularly as the result of the cost of insurance, compliance and regulation following the 2016 Kaikoura earthquake. Now with the additional risks to revenue, KiwiRail is undertaking new cost control initiatives and is also focusing on productivity and efficiency programmes. With immense pressure on labour productivity, the business is committed to ensuring the right balance of skill and capacity that allows us to still deliver on the expectations of our shareholder.

### NEW PLANNING AND FUNDING MODEL FOR RAIL

KiwiRail is experiencing a historic period of change, with unparalleled investment in restoring the national rail network and the introduction of legislation to

support new planning and funding arrangements. The Land Transport (Rail) Act and the New Zealand Rail Plan represent a fundamental change in the way rail is treated and open up the ability for the network to be funded from the National Land Transport Fund (NLTF). Together, these changes set out a pathway for sustainable planning and funding that will allow rail to play the role it should in the country's transport system.

KiwiRail was an active participant in the Future of Rail Review which recommended these changes. The review recognised the critical role of rail within our transport system and aims to ensure that rail is funded fairly and sustainably over the decades ahead, and that our national rail network is brought up to a resilient and reliable standard.

For KiwiRail's freight customers this will mean a level of schedule integrity and reliability that provides the confidence to make greater use of rail. Having a long-term strategy for planning and funding rail investment will also give KiwiRail the certainty needed to make effective business decisions.

The changes proposed through the Future of Rail Review and the Land Transport (Rail) Act represent the beginning of a broader programme to integrate rail into an inter-modal transport system. There is still significant work to be done through the implementation phase to achieve this change. The new planning and funding model will be a major change for all organisations involved in planning and funding rail, and the proposed changes will take some time to implement and bed in. The implementation phase will therefore be critical to the success of the new model.

We acknowledge that there are growing demands for increasing investment in rail across the country to create new services and capacity for growth. However, to address the significant underinvestment in past years, significant funding over the next decade will be required just to move towards the goal of a resilient and reliable national rail network, and it will be critical to ensure that investment in the core asset base is prioritised. We welcome the Government's commitment in the New Zealand Rail Plan to prioritising this investment as a vital platform for future growth.

## RELATIONSHIPS

### ENGAGING OUR CUSTOMERS

KiwiRail has continued to invest with its customers' needs in mind. Replacement programmes for wagons and South Island locomotives mean KiwiRail and our freight customers can plan with confidence to grow rail as their preferred method of moving freight.

The Government's support of land infrastructure in the form of a freight hub at Palmerston North ensures that KiwiRail can meet future freight and logistics needs in the central North Island. New ferries and port terminals planned to be delivered in 2024/25 are being designed to meet future demands of our road, rail and tourism markets.

KiwiRail has continued to deliver enhancements in our digital platforms that improve speed and efficiency of how customers book and manage their freight through to delivery.

### DELIVERING REGIONAL GROWTH

To date more than \$450m from the Provincial Growth Fund (PGF) has been committed to rail projects in the regions to help drive regional prosperity. This funding will help create more jobs and promote growth both throughout project and construction stages, and once the improved infrastructure is completed and utilised.

Our focus for the SCI period will be to deliver on projects in Northland, Palmerston North, Dunedin and Kawerau, along with a programme of regional maintenance and capacity upgrades to tourist rail in the South Island, although this upgrade has been reduced in scope as a result of Covid.

The rejuvenation of rail in Northland includes repairs and maintenance to the North Auckland Line south of Whangarei to ensure the line remains operational and re-opening the line from Kauri to Otiria and building a road-rail exchange at Otiria. We are upgrading capacity including lowering the tracks in 13 tunnels to allow hi-cube shipping containers to be carried.

In Palmerston North, we are designing and securing the land for an intermodal freight hub, which will build the city's role as a critical lower North Island freight distribution centre.

PGF funding is also being used to refurbish the Hillside Workshops in Dunedin so it can be used as a hub for maintenance and engineering expertise. The drainage and regional maintenance project will create up to 200 jobs in the regions post-Covid and ensure our regional railway lines remain resilient and can support freight growth from logs, dairy and other goods. Additionally, we are constructing a rail siding at the Kawerau Container Terminal to reduce the truck movements in the region and support economic growth through competitive, efficient freight movements from the Kawerau industrial hub to export ports.

### COMMUNITY

KiwiRail is woven into New Zealand communities through our 3,900 people from 50 towns and cities. As one of New Zealand's largest property owners, with 17,800 hectares of land and more than 1,350 buildings, we aim to be a good neighbour to those communities in which we operate.

Public safety is a core part of our business and KiwiRail is a major sponsor of the TrackSAFE rail safety organisation. We invest in community safety education programmes with a team of KiwiRail ambassadors delivering these in schools and community groups throughout the year.

We continue to grow our apprenticeship and youth training programmes, working with the Ministry of Social Development on a Future You programme into employment.

As cycleways around the country proliferate, KiwiRail is collaborating with councils and other stakeholder groups to safely use the land within our rail corridor. That has resulted in 30 cycleways completed next to the network with more than 20 others in design or construction.

### IWI

KiwiRail takes seriously its role as the kaitiaki of the rail corridor for future generations. We value relationships with iwi and hapu and endeavour to engage on current and future transport projects.

With the investment in Iwi Liaison and RMA Liaison positions, KiwiRail is looking to improve and sustain the Iwi and hapu relationships kanohi ki te kanohi (face-to-face).





*The Waiata Wednesday group helped launch 2020's Rail Safety Week at Wellington Railway Station.*



These two engagement positions are ably supported through our Māori network, Te Kupenga Mahi. This 30-year-old Māori network has representatives around the motu working together with iwi and hapu to ensure our relationships are respectful and robust.

KiwiRail is cognisant of grievances involving land in and around the rail corridor and will continue to liaise with the Office of Treaty Settlements to work through Treaty of Waitangi settlement obligations.

With a significant Māori workforce, KiwiRail is bringing a Te Ao Māori perspective to the organisation. We are building a new generation of leaders through our Toi Māori Leadership programme, Te Reo Language classes have started in requested sites and we run weekly waiata gatherings for staff of all ethnicities.

KiwiRail is looking to partner with iwi and hapu as early as possible, kanohi ki te kanohi, in all its new initiatives in our property and supply chain portfolios across the motu. This partnership focus is a key foundation of our growth strategy, and we will maintain these partnerships after the projects end.

#### **INCREASED COMMUTER DEMAND**

KiwiRail enables commuters to make more than 28 million low-carbon journeys each year. We have two

regional commuter services – the Capital Connection between Palmerston North and Wellington and the upcoming five-year trial of a Hamilton to Auckland commuter service due to begin in 2021.

Our purpose of stronger connections for a better New Zealand demands a greater focus on our long-term commuter strategy connecting people with housing and employment.

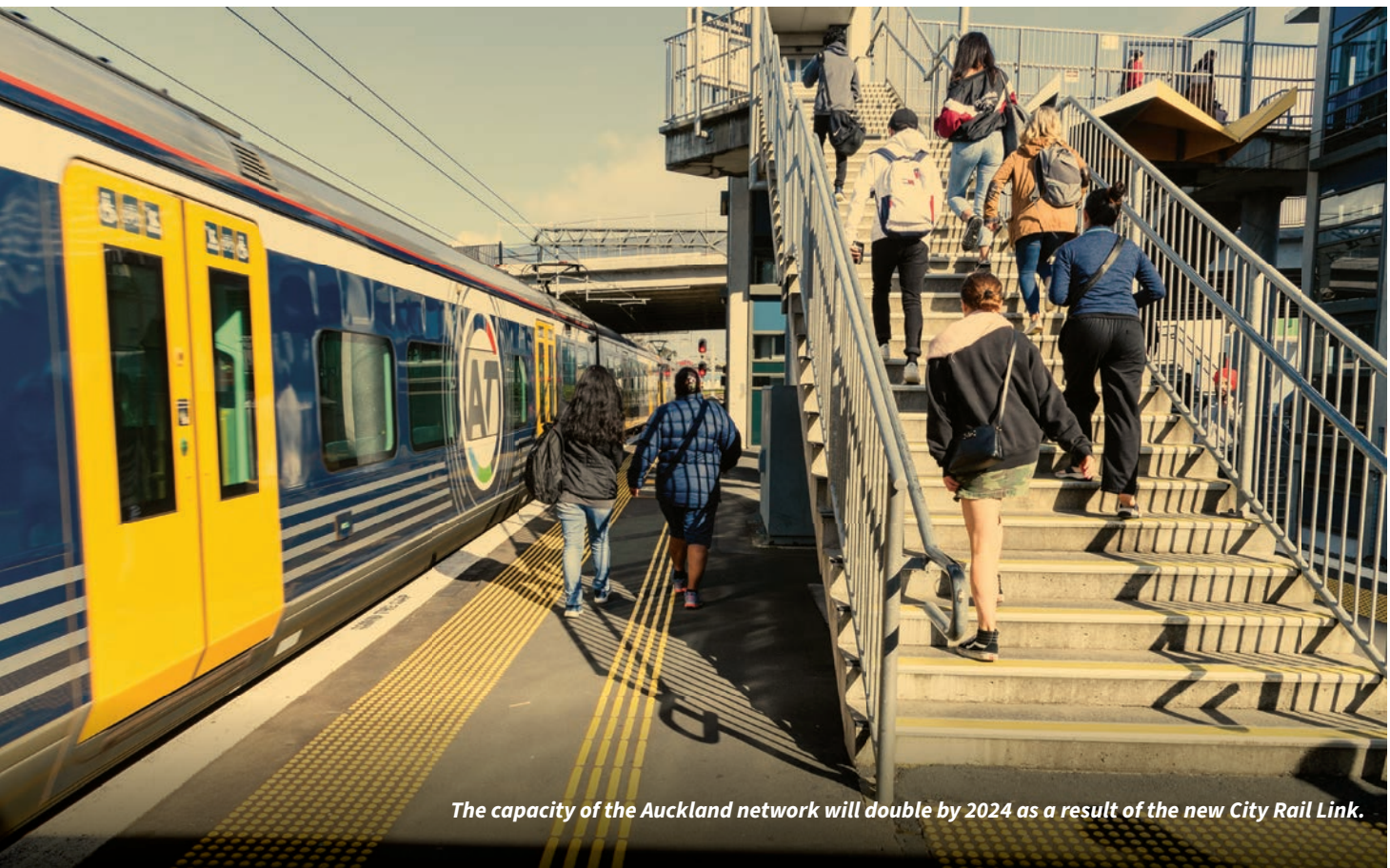
Rail plays a critical role in easing congestion in our cities and reducing carbon emissions while ensuring easy access to transport for all.

KiwiRail is working closely with Auckland Transport on the new City Rail Link (CRL), which will double the capacity of the entire rail network by 2024, and our network teams are delivering projects to ensure new timetables and capacity needs can be met.

In Wellington, KiwiRail's objective is to build a metro network that no longer constrains customer demands for capacity, resilience, performance, reliability and safety over the next three decades.

#### **GOVERNANCE**

With a large transformation programme including significant capital investment ahead, strong



*The capacity of the Auckland network will double by 2024 as a result of the new City Rail Link.*

governance is required to ensure success.

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 expectations of the Shareholding Ministers for the governance of KiwiRail are communicated each year to the Board via the Letter of Expectations from Shareholding Ministers and also set out in Owner's Expectation Guidance, which is administered by The New Zealand Treasury.

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

Typically, the Board meets 11 times during the year as part of the regular meeting agenda. In addition, there are four committees of the Board which meet throughout year. Board Committees are open to any Director to attend, and Directors who are not

Committee members regularly attend Committee meetings. These committees are described further in the table below.

We are also continuing to enhance our engagement with government agency stakeholders as we embark on our strategic capital investment programme.

## TOURISM

The impact of Covid on the tourism industry in New Zealand and overseas has been significant. KiwiRail is one of New Zealand's largest tourism operators, and before the Covid pandemic carried more than one million tourist passengers each year on The Great Journeys of New Zealand rail and interisland ferry services. The halt in services enabled us to assess how to restart to meet the needs of the market, which include our guests and the communities we serve. Changes underway include introducing two service classes when New Zealand returns to Level One in the Covid alert system for our TranzAlpine Scenic service, catering to a domestic market that travels offshore with a spend of \$8 billion annually.

New Zealand was the most popular outbound destination for Australians, with more than 1.2 million trips and, these new service classes will be in place to capitalise on a Trans-Tasman border opening when

<b>RISK ASSURANCE AND AUDIT COMMITTEE</b>	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.
<b>GOVERNANCE AND REMUNERATION COMMITTEE</b>	Assists the Board in establishing remuneration strategies and policies for the Chief Executive and his direct reports that support an increase in productivity and the retention of staff. Also assists the Chairperson and the Board to consider the performance and skill set of the Board.
<b>HEALTH SAFETY AND ENVIRONMENT COMMITTEE</b>	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.
<b>CAPITAL COMMITTEE</b>	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.



that eventuates. With longer term restrictions on wider international travel, we expect the number of Australian visitors to increase along with the demand for premium products and experiences.

The development of the two service classes supports the communities we serve by delivering tourists to their region that have a higher propensity to spend, with a flow on effect of job creation.

## ASSETS

The recently released NZ Rail Plan signals the Government's commitment to restoring a resilient and reliable railway and outlines its vision and priorities for rail. This, alongside increased Government funding through Budgets 2019 and 2020, and the implementation of the new planning and funding model from FY22 for the network (through NLTF) will enable us to invest in an extensive programme to renew and replace our core assets. Key asset investment areas are outlined below:

### ROLLING STOCK STRATEGY

Rail's ability to reliably deliver for the freight and tourism sectors depends on timely and sufficient investment in our rolling stock. We have plans for a major locomotive, wagon and shunt replacement programme coupled with the modernisation of maintenance facilities over the next decade for those assets at their end of life. This will assist in improved efficiencies and carbon reduction through modern, smart assets with the latest environmental technology. Scoping and procurement processes for these asset replacement and modernisation programmes began during FY20.

During 2019, we took delivery of 450 container flat top (CFT) wagons, taking our total number of recent-generation wagons to around 1,800 (out of a total fleet of 4,646). This allowed us to retire 450 of our oldest wagons from the fleet, improving our ability to deliver reliable services for our customers. From this point on we will be acquiring CFT wagons to a new, upgraded specification that incorporates globally sourced key subsystems and components with superior total cost of ownership performance. This will enable us to replace the balance of the life-expired wagon fleet (around 2,000 wagons) with modern, high-performing and

reliable assets that are cheaper to own and maintain over their lifetime.

We have also begun the procurement process for a new fleet of mainline locomotives for the South Island and expect the locomotives to be delivered beginning in FY23. These locomotives will provide a generational shift in technology, incorporating AC traction, remote condition monitoring and enhanced driver amenity.

Continued efforts to improve asset management and maintenance practices have seen a sustained improvement in reliability and availability performance of our locomotive fleet, despite the increasing risk around many assets reaching or exceeding the end of their useful life. This will continue to be an area of focus for the business unit over the medium term.

### FERRY REPLACEMENT AND TERMINALS UPGRADE

KiwiRail is moving ahead with the procurement of two new rail-enabled sister ships to replace its ageing Interislander ferry fleet. The new ships will enter into service in 2024 and 2025.

The programme includes significant upgrades of the port infrastructure in Wellington and Picton to accommodate the new ships which are a step-change in size and capacity. The new ships and terminals will provide increased capacity for rail freight, road vehicles and passengers needed to meet expected long-term growth in customer demand.

One of the key design objectives is to create a highly resilient and effective integrated transport system (ships, terminals, operations, and other related infrastructure) that provides safe, reliable and future proofed on-time services for our customers.

The new ships will be designed to make a significant contribution to meeting KiwiRail's carbon emission reduction targets of 30 per cent by 2030 and to be net zero carbon by 2050.

KiwiRail will continue to work closely with the Government on investment in these critical asset replacement programmes.

### AUCKLAND METRO PROGRAMME

KiwiRail is working with Auckland Transport and Waka Kotahi NZ Transport Agency to modernise the Auckland metro rail network between Pukekohe and Swanson.



*Tourism services such as the TranzAlpine are expected to make up 15 per cent of revenue in FY21.*

This will improve inter-regional freight services and the customer experience of the commuters who make 20 million trips a year on the network. The Auckland Metro Rail Programme comprises a suite of projects that will ease congestion in the busiest parts of the network and mean fewer delays because of track faults and speed restrictions, along with improving resilience.

Projects included in the programme and supported by the New Zealand Upgrade Programme (NZUP) are:

- Wiri to Quay Park third main and junctions
- Papakura to Pukekohe electrification
- Drury Stations

The Programme also includes network renewals and supporting the City Rail Link project. Construction will be phased over several years beginning late 2020. Much of it is expected to be completed by 2024.

#### **NORTHLAND**

The Government has invested \$204.5 million from its

Provincial Growth Fund (PGF) to revitalise Northland rail. The investment will be used to upgrade and renew the asset from Swanson to Whangarei over a two-year period, and re-open the line between Kauri and Otiria. This will deliver improved reliability and resilience, shorter journey times and allow high capacity intermodal containers to be carried on the Northland line.

This will allow freight that can currently only be shifted in and out of Northland by road, to instead go by rail. That additional transport option could help cut transport emissions and reduce the number of trucks on the roads.

Prior to this funding, uncertainty around the future operation of the North Auckland Line (NAL), meant the business strategy for the line had been managed decline, with only the minimum operational spend needed to keep the line open without any renewals or upgrades. The current project will allow Swanson to Whangarei to operate at an increased level of service as it will provide for hi-cube and 18 tonne capability, while Whangarei to Otiria will re-open at its previous level of service.

#### **WELLINGTON METRO**

KiwiRail continues to support the Greater Wellington Metlink operation and growth of Wellington's largely electrified passenger rail system. This support includes maintaining the network infrastructure, carrying out major programmes of renewal, increasing the capacity of the network through new construction, and working up business cases for further investment in metro rail infrastructure. Current programmes and those in development will run to at least FY26. Funding for the programmes comes from the Crown directly, the NLTF and the NZUP.

#### **NETWORK**

As noted, network investment will be channelled through the NLTF from 1 July 2021. We are working to complete our first Rail Network Investment Programme to support this, which will outline our three-year plan at resilient and reliable levels.

#### **PROPERTY**

KiwiRail has a long-term strategy which focuses

on protecting current and future rail corridors and improving the quality of our property portfolio, defining long-term land requirements and securing land for a 100-year infrastructure vision supporting integrated transport solutions in New Zealand.

KiwiRail Property invests in growing and maintaining our land for the benefit of our freight customers, our people and the environment with a strategy that seeks to improve utilisation and increase operational productivity through standardising and modernising our yards, depots and buildings.

Growth and investment in intermodal regional hubs is a focus area for KiwiRail as we plan for future freight flows. The PGF has enabled this investment. We seek to create an efficient conduit for freight movements around the country. The proposed investment in the Central North Island Freight Hub near Palmerston North ensures that we are growing an integrated transport system and improving the efficiency of supply chain for New Zealand.

In June 2020, KiwiRail completed the acquisition of 22 properties along the Marsden Point Spur designation from the Northland Regional Council. The properties had been held by Council under a 2009 agreement, on behalf of itself and KiwiRail, for the development of the spur. This purchase is the first tranche of properties acquired using the \$40 million of PGF funding for the development of the spur and was completed at a price of just over \$10.5 million.

We will continue to explore further regional opportunities, in partnership with iwi and other stakeholders for developing our land. These partnerships include offering to market large-format warehouse spaces in modern industrial environments. This will provide direct rail access via a dedicated siding into the KiwiRail network, increase rail modal share and improve revenue from land.

### **PEOPLE**

#### **HIGH PERFORMANCE, HIGH ENGAGEMENT (HPHE)**

Authentic engagement from the frontline to the Board is critical to the success of KiwiRail's business and the success of our customers. Our High Performance, High





*Emilia Cabral is part of the Future You initiative, part of efforts to develop the talent it needs for future growth.*

Engagement (HPHE) programme of work with our union partners is transforming the way we operate, bringing frontline solutions to business challenges while lifting productivity, improving safety and delivering increased performance.

KiwiRail has continued to develop our HPHE strategy with the Rail and Maritime Transport Union (RMTU). We look forward to the strategy producing substantial benefits and productivity improvements through our large nationwide Train and Terminals Optimisation HPHE Project, amongst others, before the end of FY21. There has been ongoing close and cooperative engagement with the RMTU throughout the Covid pandemic.

In addition, we have been working more closely, using HPHE protocols, with the three maritime unions which cover the crews who work on our Interislander ferries: the Maritime Union of NZ, the Aviation and Marine Engineers Association, and the NZ Merchant Service Guild. We are looking for increased engagement and improved productivity outcomes with these unions in FY21-22. This strategy of close engagement with all four

unions continues to dominate our employee relations landscape, with demonstrable benefits.

#### **DIVERSITY & INCLUSION (D&I)**

Like many heavy infrastructure industries, KiwiRail has a smaller proportion of women in its organisation at just 16 per cent. This is a continued area of focus for KiwiRail. We have increasing representation of women both at Board and senior management level, with 31 per cent of our senior leaders being women.

Future sustainability depends on a diverse workforce supported by a value based, inclusive culture where all employees have a sense of belonging and respect. KiwiRail's FY20-21 Diversity and Inclusion (D&I) roadmap has three key pillars: Awareness, Alignment and Action.

A key focus is growing our gender diversity. Attraction and retention of key female talent is a strategy being developed to build a more diverse workforce that encourages greater diversity of thought and innovation. Recruitment practices are being improved to attract and recruit a wider pool of talent. We will also audit all

phases of the employee lifecycle to identify areas for improvement and complete a gender pay gap analysis in FY21. D&I awareness training is being designed to help employees understand their own biases, build clear behavioural expectations and provide effective tools to constructively challenge behaviour.

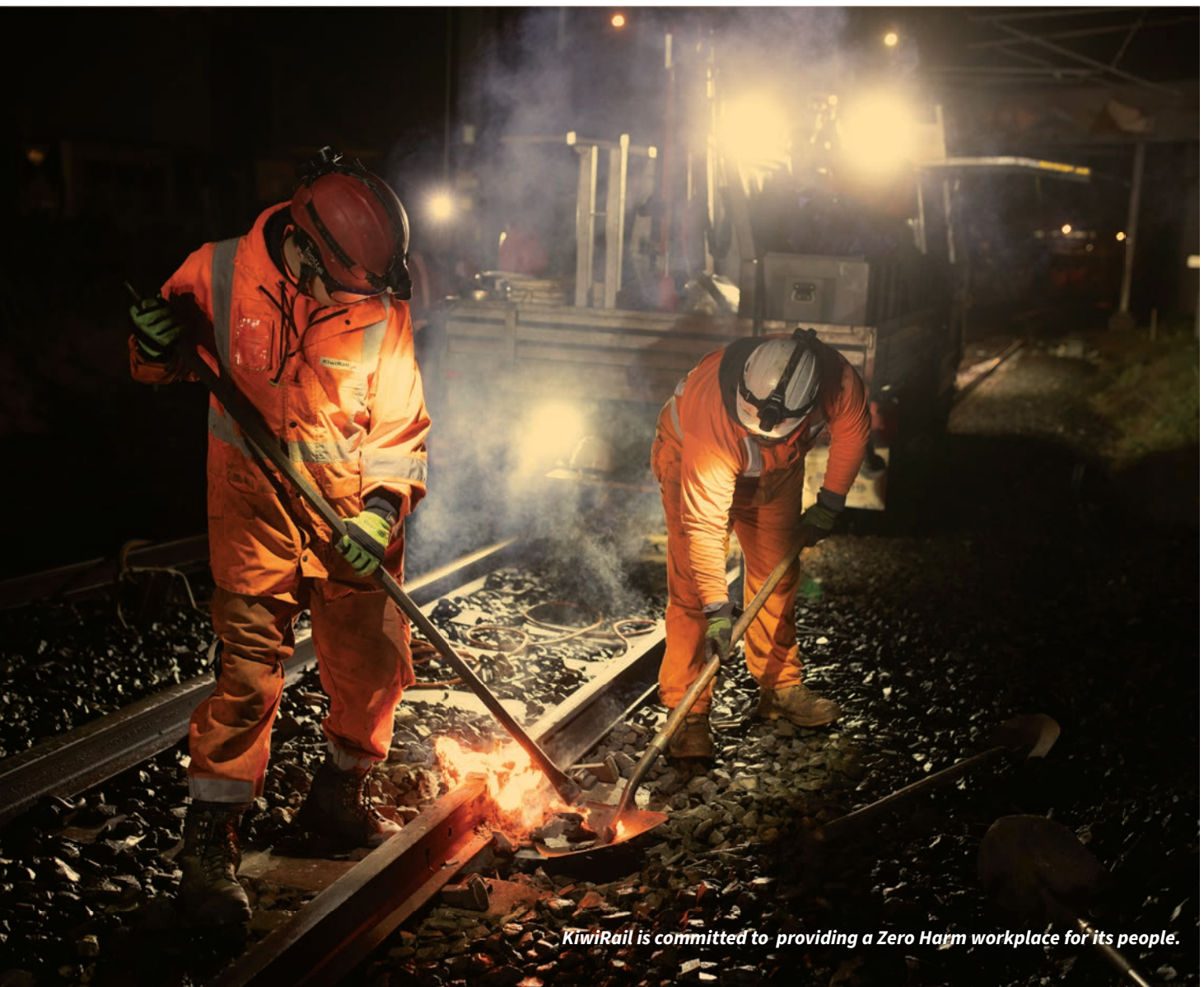
The KiwiRail Women's Network has grown considerably across New Zealand and connects regularly to ensure our female employees feel connected, supported, and inspired. Te Kupenga Mahi Māori network is active throughout the business and our Toi Toi Māori Leaders programme which teaches leadership in a Te Ao Māori environment is changing the DNA of the organisation. In addition, our Pride and Environment networking groups have contributed to building a more inclusive culture and celebrating our diverse workforce.

Post Covid, we have accelerated developing initiatives under our "Alignment" pillar including our flexible working strategy to improve productivity, employee engagement, and wellbeing.

#### **TALENT ATTRACTION & RETENTION**

Over the coming months and years, KiwiRail faces a big task to deliver our strategic plan, optimise operations, complete and deliver critical capital projects and to transform our business. It is critical that we can build on the strong foundation of experience and knowledge in our workforce to ensure we have the right levels of skill, and the right talent in place. Alongside succession planning and talent management, we are working hard to plan, develop and recruit to deliver the skills and talent required for the growth ahead.

To this end we have committed to champion our cadet,



*KiwiRail is committed to providing a Zero Harm workplace for its people.*



apprentice and graduate programmes, developing rail talent, growing jobs in the regions and ensuring we have the skills needed for the future. KiwiRail has welcomed in more than 20 Graduates since 2019.

In the summer of 2019/20, we ran our inaugural Internship Programme to support practical and professional work experience in line with their degrees over 12 weeks. We are focused on supporting and developing programmes that have positive social outcomes and promote growth within regional areas including Mana in Mahi, Future You and Second Steppers.

KiwiRail is taking a staged approach to fully integrating our people systems, allowing us to manage and maintain information on our current and potential workforce and helping us to best engage people across the whole employee life cycle – from Haere Mai to Haere Rā. We are also working to ensure our people can train anywhere anytime, by investing in our Learning Management System to focus on delivering digital learning for all our employees.

Our staff engagement rating, measured through the employee net promoter score (eNPS), was delayed by Covid and will be rescheduled to later in calendar 2020.

### **ZERO HARM**

Ensuring people can access the rail network safely and that our people and stakeholders are safe and healthy is critical to the on-going success of our business. We are committed to reducing our critical risks and improving our environmental accountability to implement and sustain a Zero Harm environment.

As a result of our Covid response, we have achieved greater collaboration across KiwiRail and with the related response forums of other organisations. We had the opportunity to think differently about operational responses to Covid risks and respond innovatively through communication tools such as the Covid Hub and online videos. We aim to be the leading safety and health organisation in New Zealand, with a safety culture that has at its heart a belief that every incident is preventable. This has resulted in a 12 per cent increase in Safety, Health and Environment (SHE) Work Conversations, 31 per cent reduction in

Safe Working Irregularities, 57 per cent reduction in Mainline Derailments and 24 per cent reduction Terminal Derailments in FY20 compared to FY19.

KiwiRail will continue to work closely with Worksafe, Ministry of Transport (MoT), Waka Kotahi NZ Transport Agency, Maritime New Zealand and the Transport Accident Investigation Commission (TAIC) to ensure we are an integral part of the solution to New Zealand's future transport needs. KiwiRail is focused on the following safety initiatives:

### **SAFETY RULES TRANSFORMATION**

Our commitment to SHE system accessibility, usability and training continues with a structured project to proactively reform the way we create, communicate and verify our rules are being applied. This project will apply a new approach incorporating human factors directly connected to known rule failures and rail incidents, worker psychology in rule and work design, training and worker competency, and execution in the field. This approach is needed to transform KiwiRail rules, making it simpler, user-friendly, and effective in the way we safely operate our business.

### **SAFETY LEADERSHIP**

A safety leadership programme is underway as we focus on shared beliefs, practices and mindsets that will shape positive safety behaviour at KiwiRail. The key element is fostering a culture of prevention within the organisation. The focus areas of the new approach include personalising safety, keeping an awareness on who we are being safe for, and making it easy for others to challenge you.

### **OPERATING TECHNOLOGY**

Technology designed to minimise or eliminate safety risk remains important. In-cab technology like the Driver Advisory System (DAS), train warning and train handling technology are all part of current improvements, with advanced forms of signal and automatic train protection such as European Train Control System (ETCS) part of prospective investment.

Operating Reporting Architecture (ORA) has replaced our previous incident reporting system. In the next 12 months, we will focus on data intelligence and ORA user training, building on our current systems



to deliver a step change for SHE and well-being performance. The focus is on the holistic approach of not only health and safety initiatives, but also highlighting fatigue management, trauma support and mental health awareness programmes that are being implemented. This system is based on international standards and best practice which will deepen our technical safety capability.

## SKILLS AND KNOW-HOW

### INNOVATION

Innovation is fundamental to helping us achieve our strategic goals, and to supporting our growth and future. We are fostering an innovation culture, mindset and behaviour across the organisation. As part of our commitment to this culture change, we have introduced a framework that encourages and supports idea generation across the business to create value through improving our customer and employee experiences, guiding those ideas from inception to implementation. We will also build innovation into our strategic capital programme, as we deliver significant rail investment for future generations.

### DIGITAL TRANSFORMATION

Our Digital Transformation is key to enabling us to achieve our strategic goals. It aims to improve our customer and employee experiences through customer-centric products and services, efficient operations and processes, putting people and safety first, delivering innovative solutions, and continuing to be environmentally responsible.

To achieve this, we are continuing to invest in our Digital Transformation Programme to realise the benefits of existing and new technology such as: automation, artificial intelligence, big data, cloud, and systems integration and ensure our people are capable in using these technologies.

Some of the initiatives within our Digital Transformation Programme include:

- Enhancing e-commerce channels and providing digital experiences that best serve our customers.

- Digitalising our customer interactions to improve our customers' experience putting our customers at the centre of everything we do.
- Real time journey visibility and tracking.
- Integrated dashboards and in-time data for key insights into our business.
- Improving workforce mobility through digital tools.
- Smart assets with sensors, tracking devices and real time communications both internally and for our customers.
- Integrated planning and workforce management which can enable optimisation and key efficiencies in the business for planning and scheduling to best meet demand.

### DIGITAL LEARNING

KiwiRail is focused on modernising how we learn and as part of that process we are digitalising our learning processes. We are using digital e-learning to build capability, enabling us to train more for less, and encouraging learning anywhere, anytime.

We have introduced innovative methods to allow access to learning to develop our workforce. More than 20,000 e-learning modules have been delivered and completed online in the past 12 months including inductions, electrification awareness and yard-based functions. A blended approach, incorporating e-learning and webinars with traditional formats, has already been identified as the way to proceed and will be significant in the future.

We are also developing a series of practical virtual reality modules that will reduce our reliance on operational resources and assets for training. The learner will be able to train in a fully immersive virtual world, increasing engagement, efficiency and safety.

## ENVIRONMENT

Sustainability is central to our purpose of delivering stronger connections for a better New Zealand.

KiwiRail plays a critical role in New Zealand's transport system and in the health of the economy, our communities and the natural environment.

## **SUSTAINABILITY**

Rail has a natural advantage as an energy efficient and low emissions mode of transport, with 70 per cent fewer emissions than heavy road freight transport. KiwiRail therefore has an important role to play in New Zealand's transition to a low emissions future and helping New Zealand meet its climate change targets.

Through our Sustainability Programme, one of our main focuses has been on energy and carbon reduction. We have developed a carbon strategy which includes carbon emissions reduction targets over the short and long term, and sets out carbon reduction opportunities for KiwiRail.

Some reduction initiatives are already underway such as the introduction of fit-for-purpose electric forklifts at our Hutt Workshop, and the procurement of electric shunt vehicles to replace some of the existing life-expired diesel vehicles in the depots. Larger asset renewal programmes such as the mainline locomotives and the Interislander ferries will also help reduce our carbon footprint as their design takes advantage of improved fuel-efficient engines and lower emissions propulsion technologies respectively.

We continue our focus on driving more energy-efficient behaviour across the business including the use of the Driver Advisory System (DAS) onboard our locomotives. We also have a waste minimisation programme underway to help identify opportunities to reduce waste to landfill, supporting a circular economy approach to waste management.

We work with our freight customers on their sustainability goals too. Our Steel Wheels data illustrates their carbon reduction achieved using rail. Steel Wheels shows that in the year to June 2020, KiwiRail took more than 1 million truck trips off the road avoiding 236,897 tonnes of CO<sub>2</sub>e emissions.

KiwiRail recognises the role that the transport sector can play in advancing the Sustainable Development

Goals (SDGs), which provide an integrated framework for addressing the world's most urgent social, environmental and economic challenges. The SDGs identified by KiwiRail as priorities for the business are SDG 8 Decent Work & Economic Growth, SDG 9 Industry, Innovation & Infrastructure, and SDG 13 Climate Action, although our operations help progress some of the other SDGs too. We will continue to support these goals in line with our organisational strategy and business objectives.

## **ENVIRONMENT**

KiwiRail recognises its large land portfolio, diverse range of services/operations, and its role as the national rail network provider for New Zealand creates both broad environmental obligations and opportunities in supporting the wider New Zealand environmental setting. KiwiRail is committed to guardianship of the land, water and air in which we operate. This responsibility acknowledges the Māori concept of Kaitiakitanga and we are mindful that our stewardship of rail land and the corridor is for future generations.

KiwiRail is starting to develop Environmental Action Plans flowing from the Environmental Policy and Sustainability Strategy which will inform not only environmental and social outcome focuses for operations and maintenance tasks but will also inform environmental prevention in design for project works. This will enable long term legacy outcomes in these areas.

The SHE Management System outlined in the Zero Harm Section is where our environmental guidance and regulatory obligations and accountabilities will be set out.

Stakeholder involvement in the environmental planning and works streams has increasingly broadened as KiwiRail seeks to lead a more cohesive environmental approach. These include other transportation providers, contractor groups, ensuring Te Ao Māori informs our environmental outlook and community environmental improvements are supported.

## 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

### INPUTS



#### FINANCIAL

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



#### ASSETS

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



#### SKILLS & KNOW-HOW

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



#### RELATIONSHIPS

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



#### PEOPLE

Our 3,900 people bring the expertise, pride and passion to KiwiRail.



#### ENVIRONMENT

We are the Kaitaki of the rail corridor and the land, air and water in which we operate.

### OUR PURPOSE

STRONGER CONNECTIONS.  
BETTER NEW ZEALAND.

### OUR VALUES

CARE  
& PROTECT

ONE  
WINNING  
TEAM

STRAIGHT  
& TRUE

GREAT  
CUSTOMER  
EXPERIENCES





COLLABORATE  
WITH PUBLIC AND  
PRIVATE PARTNERS

OFFER  
WORLD-CLASS  
TOURISM  
SERVICES

KAITAKI  
(GUARDIAN) OF  
THE NETWORK  
CORRIDOR

LEVERAGE THE  
VALUE OF THE  
PROPERTY

PROMOTE  
PUBLIC  
SAFETY

INVEST IN A  
SUSTAINABLE  
FUTURE

## OUTCOMES

### FINANCIAL

Sustainable, long-term funding means we can confidently plan for the future and provide a resilient network for a better New Zealand.

### SKILLS & KNOW-HOW

Utilise expert knowledge and industry-specific technology to meet challenges both expected and unexpected.

### PEOPLE

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

### RELATIONSHIPS

Connect New Zealand and nurture partnerships for freight customers, commuters and tourists.

### ASSETS

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

### ENVIRONMENT

Support our customers to reduce their supply chain footprint, as every tonne of freight carried by rail is a 70% emissions saving over road.

## 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.



## ASPIRATIONS AND OBJECTIVES

This section outlines KiwiRail's aspirations and targets for the three years to 2023. We have grouped them under the six capitals of the Integrated Reporting Framework, to create value for New Zealand.

The aspirations and targets link directly into KiwiRail's long-term strategy. Our 2020-2023 focus is about investing in New Zealand's economic recovery following Covid and working with the Government to implement the mechanisms to achieve this.

With appropriate mechanisms in place, KiwiRail will be well positioned to drive growth in cities and regions, contribute to a low emissions economy and support New Zealand's economic recovery

### FACTORS IMPACTING KIWIRAIL'S PERFORMANCE MEASURES FOR THE 2021-23 PERIOD:

- The financial forecasts over the FY21-23 period reflects the continued uncertainty KiwiRail faces as a result of the ongoing global pandemic. The full impacts of Covid-19 are still emerging and cannot be fully quantified at this time and will continue to have a widespread impact on New Zealand for a significant period. As a result, financial projections included in this SCI are expected to change as

the full effects of Covid-19 on delivery of the programme become clearer.

- The Government has announced significant investment in KiwiRail's capital programme. This will enable renewal of life expired assets including ferries, rolling stock and rail infrastructure. However, it is important to note that, due to the long lead times to procure, construct and commission these assets, it will be 3-5 years before these investments deliver their full benefits. As a result, these benefits are not fully captured in the performance measures in the 3-year period of this SCI.
- The Land Transport Rail Legislation Act 2020 was passed in June 2020. This will impact financial and non-financial performance measures in years 2022 & 2023 of this SCI as a new planning and funding framework is implemented, enabling KiwiRail's network costs to be funded through the National Land Transport Fund. The legislation has only recently been passed and we are still in the implementation phase. Therefore, it is more appropriate to reflect any future impact on KiwiRail's performance measures in next year's SCI, by which time we will have drafted our first Rail Network Investment Programme.





## FINANCIAL CAPITAL

### ASPIRATION:

- Grow our business to \$800m revenue per annum by 2030
- Build a resilient, reliable, and sustainably profitable business
- Secure a sustainable planning and funding framework for the rail network
- Deliver strong commercial outcomes for above rail operations
- Double value of rail to New Zealand
- Creation of enhanced tourism opportunities and better utilisation of our property portfolio

### OUR FY21 - FY23 FOCUS:

- Execute Covid strategic response and recovery plans
- Long-term funding mechanism and sustainable operating model in place
- Improve operating costs as a percentage of revenue to less than 85 per cent
- Increase rail share of New Zealand freight task
- Diversification of our revenue streams
- Focus on Profit & Loss management and accountability across the business and at an operational level

KPI	FY20 FORECAST	FY21 PLAN	FY22 PLAN	FY23 PLAN
Revenue (\$million)	639	608-620	640-660	660-680
Operating surplus (\$million) [Reported]	40	5-20	30-50	50-70
Operating Surplus Ratio (%)	6	1-3	4-7	7-10
Freight NTK carried (million)	4,043	4,140	4,280	4,360
Yield of property portfolio <sup>1</sup> (%)	6	7	8	8

1. Yield of property portfolio is calculated as the annual rental income of the portfolio as a percentage of the total leasable portfolio value.



*Freight continues to be the largest revenue contributor.*





## RELATIONSHIPS CAPITAL

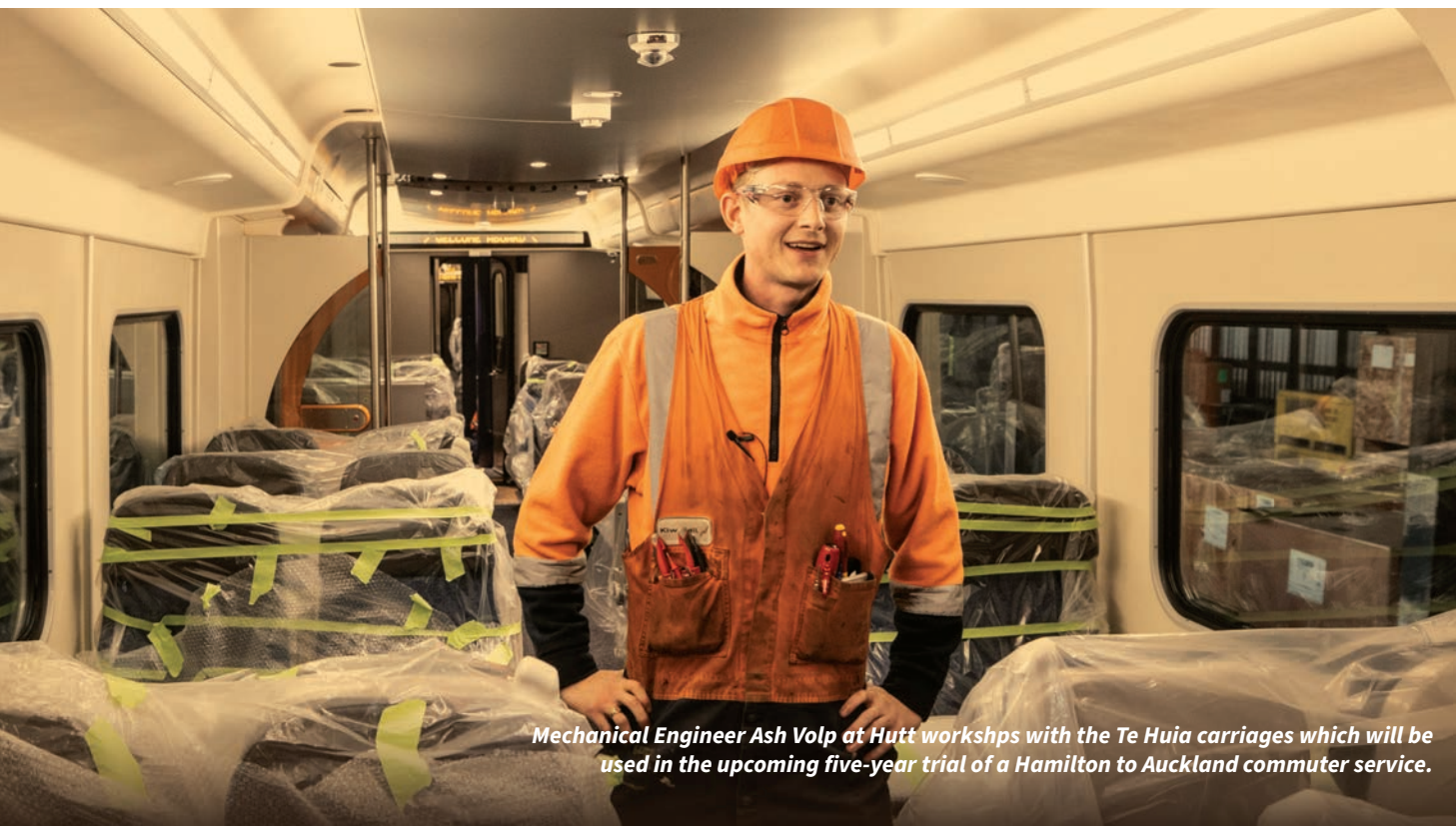
### ASPIRATION:

- Align our shareholders and the New Zealand public on KiwiRail's purpose and long-term plan
  - Create value for NZ Inc. by connecting our customers to their markets reliably
  - Deliver sustainable and inclusive growth and enhanced offerings in the regions
  - Foster a safety mindset in the communities in which we operate
  - Support step change in rail commuter journeys
- Drive regional growth by delivering on Provincial Growth Funded (PGF) investment
  - Commuter rail renewal and upgrade programme in Auckland and Wellington, and new Hamilton to Auckland service
  - Foster a safety mindset and promote rail safety in the communities in which we operate
  - Partner with iwi and other stakeholders on new initiatives in our property and supply chain portfolios
  - Grow Tourism and deliver enhanced tourism offering to further support regional economies
  - Partner with government agencies to deliver sustainable planning and funding model

### OUR FY21 - FY23 FOCUS:

- Invest in network, facilities and rolling stock to enable safe, reliable and efficient services

KPI	FY20 FORECAST	FY21 PLAN	FY22 PLAN	FY23 PLAN
Commuter journeys enabled (million)	28	29	30	31
Tourist passengers carried (million)	0.9	0.6	1.0	1.0
Number of new partnerships (number)	n/a	8	8	8



*Mechanical Engineer Ash Volp at Hutt workshops with the Te Huia carriages which will be used in the upcoming five-year trial of a Hamilton to Auckland commuter service.*



## ASSETS CAPITAL

### ASPIRATION:

- Integrated planning across all assets
- Deliver a strategic investment programme that underpins the commercial success of the business and meets broader stakeholder objectives
- Future-proofed network, rolling stock, mechanical depots and Interislander assets with increased capacity, resilience, reliability
- Align rolling stock capital replacement programmes with freight customer contract tenure to manage return on investment
- Improved through life safety performance through Safety in Design and modern assets
- Ensure investment in new assets helps to drive better environmental outcomes

### OUR FY21 - FY23 FOCUS:

- Deliver the strategic asset replacement programme (rolling stock/mechanical, network, ferries)
- Increase maturity of asset management and maintenance systems to ensure strong asset resilience for continuity of service
- Integrated planning to optimise alignment between rolling stock availability, network access for maintenance, asset management, delivery in full, on time (DIFOT) planning, technology, and customer demand
- Use delivery models that sensibly maximise prospects for local employment
- Deliver the Metro networks upgrades and support City Rail Link Limited (CRL) and Link Alliance to deliver to City Rail Link (CRL)

KPI	FY20 FORECAST	FY21 PLAN	FY22 PLAN	FY23 PLAN
Capital Expenditure – BAU (\$million)	277	288	310	335
OTP – Freight Premier (%)	88	90	90	90
Reliability – Locomotive MDBF <sup>2</sup> (thousand kms)	50.5	40	45	50
OTP – Interislander – arrival within 15 mins of scheduled time (%)	90	92	92	92
Reliability – Ship services to advertised sailings (%)	98.8	99	99	99
Locomotive Availability (%)	82	80	82	85
Capital Expenditure – Strategic projects (\$million)	375	958	1,369	1,419
Average age of rolling stock – Locomotives <sup>3</sup> (years)	24.9	25.5	26.1	24.2
Average age of rolling stock – Wagons <sup>3</sup> (years)	25.2	25.3	19.0	20.0
Average sleeper condition (1-meets code requirements – 5-does not meet code requirements)	2.08	2.02	1.95	1.87
Average rail condition (1-meets code requirements – 5-does not meet code requirements)	2.04	2.02	1.99	1.96
Achievement of major milestones	n/a	Award ship contract Award locomotive contract Complete MNL rebuild	EFs re-enter service	Locomotives enter service Second control centre established

2. MDBF is Mean Distance Before Failure measured in kilometres. This metric is influenced by the average age of the locomotives. MDBF is anticipated to increase – more kilometres travelled before a mechanical failure event - as we retire aged locomotives and bring new locomotives into our fleet.

3. Our new locomotives and wagons are due to arrive from 2022. The impact of which can be seen in average age of rolling stock figures initially rising and then dropping again when the new assets arrive.



## PEOPLE CAPITAL

### ASPIRATION:

- Everyone returns home safe and healthy every day, preserving our environment for tomorrow
- Achieve Zero Harm
- Be recognised as a top employer of choice in New Zealand by 2030
- Best in class staff engagement measures of >40 by 2030
- Build a sustainable workforce for the future
- Have a reputation for engaging employees in business improvements (HPHE)

### OUR FY21 - FY23 FOCUS:

- Attract, develop and retain talent given KiwiRail's ageing workforce and critical goals
- Transition to a more diverse and inclusive culture and workforce
- Grow our talent and youth pipeline training programmes
- Build an accredited rail qualification framework and grow our apprenticeship programme
- Build on our existing safety systems and culture to deliver a step change in Zero Harm performance
- Drive targeted initiatives to support well-being, including mental health and fatigue management
- Work with unions on common strategic priorities, engaging workers to support productivity and efficiency (HPHE)

KPI	FY20 FORECAST	FY21 PLAN	FY22 PLAN	FY23 PLAN
Employee Net Promoter Score (number)	n/a	25	25	25
Grow our younger employee demographic <sup>4</sup> (% of total workforce)	14	15	16	17
Women in the workforce (%)	16	18	20	22
Safety, Health & Environment Work Conversations & Critical Control Verifications (number)	20,576	21,000	25,200	30,240
Safety, Health & Environment Hazard and Near miss reporting (number)	1,159	3,322	3,986	4,783
Safety, Health & Environment High Risk Events (number)	377	302	241	193
Total Recordable Injury Frequency Rate –TRIFR (number)	31.8	25.4	20.3	16.2

4. KiwiRail 'younger employee demographic' is defined as under 30 years old.





SKILLS AND KNOW-HOW CAPITAL

ASPIRATION:

- Embed an innovative culture, behaviour and mindset across the organisation
- Nurture digital thought leadership across the business
- Prepare workforce for the future
- Our digital platforms enable an enhanced customer-centric experience

OUR FY21 - FY23 FOCUS:

- Introduce and implement the innovation framework to encourage and support ideas generation and implementation across the organisation

- Introduce Virtual Reality environments for training within Centres of Excellence
- Increase digital platforms and capability for better data connectivity and information sharing with employees, customers and assets
- Drive stronger financial accountability and commercial acumen to deliver a more profitable business

KPI	FY20 FORECAST	FY21 PLAN	FY22 PLAN	FY23 PLAN
Benefits realised through our digital programme (\$million)	n/a	2.9	4.3	5.7
E-learning programmes run (number)	21,200	22,500	25,000	27,500



Customer logistics specialist *Ebony Tipene* uses digital platforms to liaise closely with customers, to meet their requirements and ensure freight is delivered on time.



ENVIRONMENT CAPITAL

ASPIRATION:

- KiwiRail to achieve net Carbon Zero by 2050
- Support achievement of New Zealand’s climate change goals
- Foster partnerships to identify and realise opportunities to improve the natural environment
- Step change in environmental performance

OUR FY21 - FY23 FOCUS:

- Remain on track to achieve a 30 per cent reduction in carbon emissions by 2030 through extending our pipeline of initiatives
- Investigate and trial low-carbon fuel types
- Improve visibility of waste outcomes and reduce waste to landfill from across our operations
- Increase internal transparency of environmental performance

KPI	FY20 FORECAST	FY21 PLAN	FY22 PLAN	FY23 PLAN
GHG emissions per NTK (grams)	28.1	28.1	26.4	26.4
Truck Avoidance (million)	1.07	1.16	1.21	1.22



*The rebuild of the Main North Line is nearly complete and the company continues to recover from the November 2016 Kaikoura earthquake.*

## REQUIRED INFORMATION

	2020	2021	2022	2023
	FORECAST	PLAN	PLAN	PLAN
<b>SHAREHOLDER RETURN MEASURES</b>				
Total Shareholder Return	n/a	n/a	n/a	n/a
Return on Average Equity (%)	(24)	(16)	(14)	(12)

<b>PROFITABILITY/EFFICIENCY MEASURES</b>				
Return on Average Capital Employed (%)	(18)	(14)	(14)	(12)
Operating Margin (%)	6	1-3	4-7	7-10

<b>LEVERAGE/SOLVENCY MEASURES</b>				
Shareholder's Funds to Total Assets (%) (closing equity/total assets)	60	80	84	85
Gearing Ratio (net) (%) (net debt/closing equity)	2	7	8	8
Interest Cover (operating surplus/net finance costs)	7.2	2.3	2.7	2.8
Solvency (current assets/current liabilities)	0.98	1.80	1.51	1.36

Note that to provide meaningful comparatives, the above ratios assume that additional funding will be received as equity.

### ACCOUNTING POLICIES

KiwiRail's detailed accounting policies can be accessed in the most recent year-end financial statements which are contained in the most recent annual integrated report and can be found here: <https://www.kiwirail.co.nz/media/annual-reports/>

### DIVIDEND POLICY

KiwiRail is focused on improving financial sustainability and reducing the need for taxpayer support. However, a significant amount of investment will be required from the Shareholder for the foreseeable future. As such, KiwiRail does not expect to make any dividend payments over the period of this SCI.

### INFORMATION TO BE PROVIDED TO SHAREHOLDING MINISTERS

KiwiRail will provide to Shareholding Ministers:

- An Annual Report and Half Yearly Report in accordance with sections 15 and 16 of the State-Owned Enterprises Act 1986. These will include a statement of financial performance, a statement of financial position, a statement of cash flows and such details as are necessary to permit an informed assessment of the Company's performance
- Continuous Disclosure reporting as required By Treasury's Commercial Operations Team



- Regular reporting to Treasury's Commercial Operations Team for performance monitoring during the Strategic Plan investment period
- Other information requested by Ministers in accordance with section 18 of the State-Owned Enterprises Act 1986.

#### **SIGNIFICANCE**

KiwiRail will not consult with Shareholding Ministers on:

- Transactions in the course of expenditure of approved Crown funding or investment in KiwiRail (unless consultation is otherwise specified by Shareholding Ministers as a condition of their approval of that funding or investment); or
- Major transactions that have been approved by Shareholding Ministers in accordance with the Companies Act 1993.

Subject to the above exclusions, KiwiRail will consult Shareholding Ministers before entering into a transaction that meets any of the criteria listed below:

- is for a capital expenditure or equity investment with a transaction value > \$[50] million; or
- involves substantial diversification or overseas expansion (including offshore investments); or
- is materially inconsistent with the nature and scope of KiwiRail's activities as set out in this SCI; or

- involves payment of any dividend or return of capital to the Crown; or
- otherwise meets a criterion for consultation specified by Shareholding Ministers in KiwiRail's letter of expectations.

#### **PROCEDURES FOR SHARE ACQUISITION**

KiwiRail will consult with Shareholding Ministers on the subscription for, or sale of, shares in any company or equity interests in any other organisation which are material, involve a significant overseas equity investment, or are outside the scope of KiwiRail's core business.

On occasion and in connection with the purchase by KiwiRail of farmland that is required for rail purposes, KiwiRail will need to acquire and hold shares or other securities in milk purchasing co-operatives or companies. Such transactions are not considered material and will not be the subject of consultation.

#### **COMPENSATION FROM THE CROWN**

KiwiRail expects to receive compensation from the Crown as per section 7 of the State-Owned Enterprises Act 1986 for public policy work and projects undertaken by the company which have a public good element or purpose and would not be undertaken on purely commercial grounds.

#### **COMMERCIAL VALUATION OF THE CROWN'S INVESTMENT**

The Board have used the method of discounted cash flows (DCF) to estimate the value of the KiwiRail Group as at 30 June 2020.

\$M	30 June 2019	30 June 2020
DCF Enterprise Value	(2,506)	(2,787)
Less Net Debt	(245)	(249)
DCF Equity Value	(2,751)	(3,036)

There has been a decrease in the commercial value related to operating free cash flows of \$281 million. This reflects an increase in capital expenditure via additional capital investment from the Government through equity funding.

The Land Transport (Rail) Legislation Bill was passed into law in June 2020, amending the Land Transport Management Act 2003 (LTMA) and Land Transport Act to implement the new planning and funding framework for Rail through the National Land Transport Fund. As a result, this valuation includes funding that KiwiRail expects to receive from the National Land Transport Fund from 1 July 2021 on approval of the first Rail Network Investment Programme.

Based on the current earnings projections, it is not expected that the Group will be paying income tax in the projected earnings period.

The key points about the manner in which this valuation was derived are as follows:

- The DCF methodology used to calculate the Net Present Value (NPV) of the entire KiwiRail Group includes all subsidiaries on an after-tax basis
- The DCF / NPV was based on the nominal (i.e. inflation-adjusted) future cash flows set out in this SCI, with forward projections made through years 4 to 20 aligned to KiwiRail's long-term operating forecasts and capital requirements
- A terminal value of \$1,040 million has been included; the growth assumption in the terminal value was 2%
- A risk-free rate of 2% and discount rate of 7% have been used
- PwC has confirmed the mathematical accuracy of the calculation of the DCF valuation prior to approval of the DCF value by the Board. PwC did not assess the inputs to the valuation calculation.

## THE VALUE OF RAIL TO AOTEAROA

It is important to note that the commercial valuation indicated above does not include the wider benefits that rail provides to New Zealand (externalities). These externalities were considered in the 2016 Value of Rail report. This involved modelling what would happen if the rail network did not exist, such rail freight and metro services were replaced by road transport.

The EY report estimated the total value of rail to New Zealand to be \$1.47 billion - \$1.54 billion per annum from just four quantitative areas:

- Reduced travel time and congestion
- Reduced greenhouse gas emissions
- Improved safety outcomes – reducing costs of serious injuries and death caused by crashes
- Reduced network maintenance and upgrades

This analysis indicates that the value of rail far exceeds the annual direct government investment in the existing network. Moreover, the value excludes indirect benefits from rail such as employment, tourism, connectivity, land use and resilience. Assessing these impacts would further increase the value of rail quantified above.

## APPENDIX 1: PERFORMANCE MEASURE DEFINITIONS

### DEFINITIONS OF SOE PERFORMANCE MEASURES

Dividend Payout	Proportion of net operating cash flows paid out as a dividend to the shareholder after allowance is made for capital maintenance
Dividend Yield	The cash returned to the shareholder as a proportion of the value of the company
Gearing ratio (net)	Net Debt divided by Total Equity
Interest cover	Operating Surplus divided by net Interest Expense on Borrowings
Operating Margin	Operating surplus divided by Total Revenue
Return on Average Capital Employed	EBIT divided by Total Average Equity before Revaluation Reserve and Interest bearing liabilities
Return on Average Equity	NPAT divided by Total Average Equity before Cashflow Hedge Reserve
Shareholder's Funds to Total Assets	Total Equity divided by Total Assets
Solvency	Current Assets divided by Current Liabilities
Total Shareholder Return	(Commercial Value less Commercial Value plus dividends paid less equity injected) divided by Commercial Value



## GLOSSARY

EBIT	Earnings before interest and tax
GHG	Greenhouse Gas
MDBF	Mean distance between failure
NLTF	National Land Transport Fund
NPAT	Net profit after tax
NPS	Net Promoter Score (NPS) derives from asking your employees or customers ‘How likely are you to recommend ‘company name’ to a friend or colleague?’ and basing that on a scale of 0-10. Scores of 9 or 10 are classed as promoters, scores of 7 or 8 are classed as passive, and scores of 0 to 6 are classed as detractors. The NPS is then calculated by subtracting the percentage of “Detractors” from the percentage of “Promoters” providing a score between -100 and 100
NZUP	New Zealand Upgrade Programme
Operating Surplus	Net surplus (revenue minus expenditure) excluding significant items before foreign exchange, interest, taxation, depreciation, amortisation, impairment, grant income and fair value adjustments.
PGF	Provincial Growth Fund
TRIFR	<p>The Total Recordable Injury Frequency is the total number of injuries (all TRIs) requiring medical treatment, per million hours worked within an organisation.</p> <p>To calculate the TRIFR, the number of recordable injuries in a 12-month period is divided by the number of hours worked by all staff in the same 12-month period and multiplied by one million.</p>

