



BUILDING A SUSTAINABLE FUTURE





Redevelopments at both Picton and Wellington are part of the ferry replacement programme.

Front cover: KiwiRail plays an important role in shifting logs as New Zealand continues to move towards peak “Wall of Wood”.

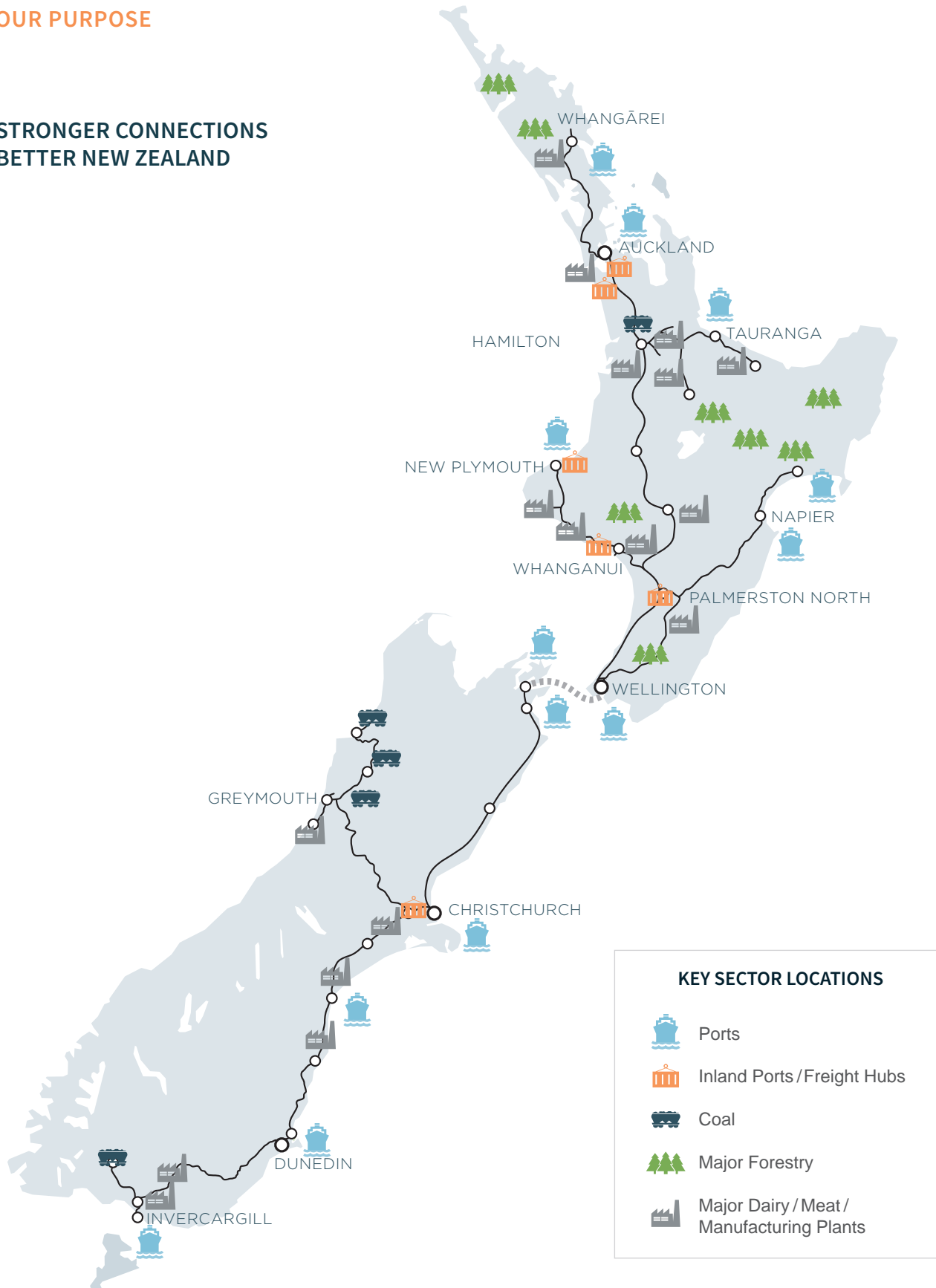


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OUR PURPOSE

**STRONGER CONNECTIONS
BETTER NEW ZEALAND**





Freight

Moves around 19 million tonnes of freight each year



Track

Operates and maintains 3,700km of track, including six million sleepers, of which 50 per cent are concrete

Interislander



Operates three ships carrying 830,000 passengers on 3,800 sailings per year**



Commuters

Helps commuters make 35 million low-carbon journeys each year on our network**



Value

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



Freight task

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



Freight services

Operates 43,000 mainline freight departures each year
172 mainline locomotives

Property

Manages more than 18,100 hectares of land



Owens more than 1,350 buildings

Manages 10,000+ leases, licences and grants

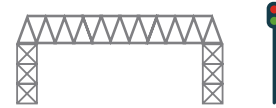
Sustainability



Reduces heavy vehicle impact by more than 1.1 million trucks per year

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

Infrastructure



3,100 signals
1,500 public level crossings
106 tunnels
1,344 bridges

Exports and imports



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

Tourism



Offers long-distance tourism experiences between Auckland and Wellington, Picton and Christchurch, and Christchurch and Greymouth



Our team

4,200 employees
18% female
15% under 30 years old

* The Value of Rail in New Zealand – 2021
** Figures are pre-COVID

INTRODUCTION

More than at any other time in its recent history, KiwiRail is looking ahead with optimism, confidence, and certainty. After years of managed decline, and against the backdrop of investment rejuvenation, and increasing global and domestic concern about climate change caused by greenhouse gas emissions, rail is now competing to become the premier linehaul freight operator.

Thanks to the Government's New Zealand Rail Plan, rail is currently experiencing an unprecedented level of capital investment in projects that are improving the resilience and reliability of the national rail network, and provide the foundation for KiwiRail's commercial growth. The introduction on July 1 of a new funding model for network investment represents a welcome turning point

for KiwiRail. The new funding regime allows for the division of the so-called “below rail” (i.e. infrastructure) costs and activities associated with the network, such as track maintenance, and the “above rail” costs and operating activities, such as our freight services. The new structure heralds reliable, transparent, and timely funding from the Government for the “below rail” costs - working to an agreed, published plan. Over time, KiwiRail will be responsible for the full “above rail” costs of its operations.

While the above and below rail funding streams can be seen as separate, they are inextricably linked and inter-dependent. The shared objective of both above and below rail funding is to grow the role of rail in New Zealand's transport sector for both freight and passengers. This will only happen through KiwiRail



providing more services, and progressively more reliable services, and it will do that only with a more reliable and resilient network.

At the same time as this change in approach to funding, rail has enjoyed several years of significant Government investment both in the network and for capital projects and new assets, through various sources. This includes \$1.3 billion for rail in Budget 2021, \$1.2 billion in Budget 2020, and \$1 billion in Budget 2019. On top of Budget funding, with investment via the New Zealand Upgrade Programme and the Provincial Growth Fund, the company is busier than it ever has been. It is focused on delivering projects, while running an active national freight network and metro networks in Auckland and Wellington.

With 4,200 people in the KiwiRail team, we are a significant employer. Our union partners are important to us, with 79 per cent union membership across the company. We have a High-Performance High-Engagement strategy in place, we value diversity and have an unrelenting focus on health and safety with impressive improvements in our safety measures.

Part of the backdrop during this current period of investment is a growing determination for New Zealand to reduce its greenhouse gas emissions. KiwiRail's target is a 30 per cent reduction in carbon emissions by FY30 compared with FY12 and to achieve net zero carbon emissions by 2050 in line with the Climate Change Response [Zero Carbon] Amendment Act. A multi-pronged approach will be needed to achieve these goals with emissions savings anticipated through a variety of means including truck trips avoided by moving more freight from road to rail, cleaner technology on our new ferries and more energy-efficient locomotives.

Our investment is also offering diverse career opportunities and long-term employment. Our most recent annual report recorded that KiwiRail and a range of funding partners have spent more than \$2.3 billion in renewal and upgrades of the network, rolling stock, property, and ferries over the last five years. This is a significant contribution to the New Zealand economy, especially in the regions.

The vision of a more reliable network also includes our Interislander service on Cook Strait. The signing of a contract to provide two larger new, more energy-efficient rail ferries heralds an exciting new era on this vital connection. Redevelopment of old infrastructure at the ports in Wellington and Waitohi Picton will be required to receive the new ferries from 2025.

We are pursuing further commercial utilisation of our property portfolio which includes 18,100 ha of land, on which we manage more than 10,000 leases, licenses and grants.

We are refining our commercial focus and using technology to improve and enhance our relationships with our freight customers.

The latest assessment of the Value of Rail shows that benefits range in value between \$1.7 billion to \$2.14 billion per annum. This analysis captures costs which are often hidden, including reductions in air pollution, fuel consumption and road maintenance.

In the year since the last Statement of Corporate Intent (SCI), KiwiRail has learned to adapt in a timely and effective way to changing Covid alert levels while at all times making the safety of the public and our KiwiRail team our paramount concern. The uncertain economic environment has been harder to manage. Having New Zealand's borders closed to overseas visitors for a year has caused a significant drop in revenue on our long-distance passenger trains. We have used this opportunity to consider offering additional services once borders re-open, and a fresh marketing approach. We will continue to closely monitor border and market changes, and we plan to respond and adapt accordingly.

KiwiRail is registered as a State-Owned Enterprise (SOE) and operates within the policy and regulatory framework of the State-Owned Enterprises Act 1986 (the Act). This SCI sets out the business objectives and performance targets for the three years to June 2024 and is submitted by KiwiRail pursuant to Section 14 of the Act.

NATURE AND SCOPE

KiwiRail moves people and freight by rail and sea and is the steward of the national rail network.

We are set on the path to being a modern, efficient rail company supporting many varied sectors of the New Zealand-based supply chain. We offer:

- a network of strong inter-regional linehaul services serving the domestic, import/export, bulk and forestry sectors
- an inter-island shipping business offering services to road, rail and passenger markets
- commuter and tourism services
- property management and development
- an infrastructure division delivering asset management and improvements in the rail network.

KIWIRAIL CORE VALUES



COVID-19 STRATEGIC RESPONSE

New Zealand's economy is subject to ongoing uncertainty with the Covid global pandemic continuing to impact international and domestic markets. Like many New Zealand businesses, 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, particularly in our Scenic and Interislander services which are heavily reliant on international tourism. KiwiRail continues to refine and adapt its business, operations and commercial performance to respond to the fluctuating Covid alert levels and resulting impacts to markets. We have a four-stage strategic and tactical plan to determine future services and operations. Our strategic response is underpinned by our overall purpose "Stronger Connections, Better New Zealand". As an essential service, our team will continue to unite to ensure continuity of our core services to support the movement of critical freight and essential workers throughout the country, when required.

1 respond 

2 stabilise 

3 recover 

4 thrive 

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. KiwiRail has come out the other side of the Covid lockdowns stronger and more resilient. The freight side of the business was relatively quickly operating at pre-Covid levels, aided by our ability to meet an uplift in domestic demand caused by international ship imports consolidating to fewer ports. While the borders remain closed to international tourists the two lines of business most impacted by border closures or restrictions are the Interislander and scenic services.

KiwiRail is focused on increasing its market share within the freight sector, particularly as it operates nationwide.

Across the KiwiRail freight business, volatility of 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. KiwiRail has reset its pricing over the last two years which has led to freight customers choosing the mode most appropriate to their service and cost requirements. The health of the domestic economy is a key barometer for the growth in domestic freight volumes. KiwiRail has been investing in our wagon fleet to keep it competitive with the high productivity motor vehicles (HPMV) road units. For example, we will continue to invest in wagons with higher cubic capacity and intermodal equipment. This aligns to our heavier payload wagons which give us an increased cubic capacity and competitive cost per cubic metre and per tonne, relative to HPMV vehicles.
- **Import/Export (IMEX)** overall volumes remain 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 on the wider supply chain



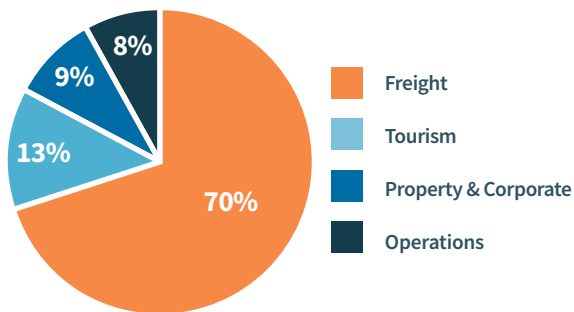
Container terminal sites and inland hubs are a vital part of the supply chain.

efficiency of any proposed changes to the upper North Island port locations will need to be worked through in coming years.

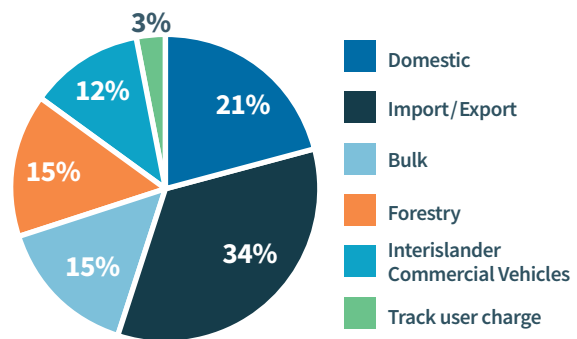
- **Bulk freight** remains dominated by coal export levels and the overall demand for coal. Key decisions will be required ahead of the end of a current coal contract (2026) on the West Coast of the South Island.
- **Forestry** continues to move towards peak “Wall of Wood”, which is expected to be reached in the next 15-20 years. KiwiRail continues to play a valued role,

offering forestry shuttle services between ports and forestry hubs and increasing its footprint in this sector as new rolling stock comes on stream. Softer export prices earlier in the year lowered the volume of exports in the short-term. This quickly rebounded. 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, and is only attractive whilst export prices are low.

**ABOVE RAIL
TOTAL EXTERNAL REVENUE
BY SERVICE LINE**



**ABOVE RAIL
FREIGHT TRADING REVENUE
BY SECTOR**



The charts above show the source of KiwiRail's above rail revenue budget for FY22, 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.

- **The market for Commercial Vehicles** moving between islands on ferries is highly competitive, with KiwiRail's Interislander competing directly with Bluebridge. To optimise the currently limited space until the arrival of two new rail-enabled ships in 2025 and 2026, we are introducing digital tools to influence customer behaviour and improve utilisation. For example, electronic self-serve bookings for customers, online booking, and travel confirmation.
- **Tourism** operations in the North and South Islands on the Interislander and KiwiRail's scenic trains. Following New Zealand's traditional tourism patterns, both are seasonal businesses and prior to Covid both relied significantly on international markets. The outlook for the next three years is still evolving. To ensure we are best placed for borders re-opening, we are continuing to explore wider commercial partnerships and new product development areas. These include targeting the premium market (value over volume) and looking to improve our service offering to align with the tourism rebound and new ferry introduction. The successful Scenic Plus trials including up-market food and beverage package is an example of this direction.

STRATEGIC PRIORITIES

KiwiRail's purpose is to sustainably 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 the country, economically, socially, and environmentally. We are focused on delivering value to all our stakeholders: customers, employees, partners, shareholders, and the New Zealand public. We will do this by maximising the benefits from investment in rail and delivering on our plans to achieve our goals and transform our business.

Our 10-year strategy is made up of two five-year components:

- The first five years are building on our current momentum, adding rolling stock, increasing our scenic offerings and increasing our key sector

market share ahead of the new ferry deliveries. This will be achieved by delivering on the Rail Network Investment Programme, purchasing new rolling stock and ferries, and investing in digital solutions, re-setting commercial contractual terms aligned to the next best alternative, and continuing to drive financial accountability.

- Achieving this will springboard us into our second five years, where we will leverage our new, modernised assets and increased capacity to continue to increase freight and passenger volumes, and develop new markets and opportunities. In this period, we will achieve a self-sustaining above rail business, independent of Crown funding.

We will deliver through our key strategic themes which include:

- put the customer at the centre of everything we do and grow our earnings
- optimise our commercial delivery
- achieve Zero Harm
- be an employer of choice and improve our gender mix
- deliver on the key capital projects that will increase the value of rail
- bring increasing sustainability benefits as we drive for net zero carbon emissions by 2050.

These are ambitious goals both for New Zealand and for the 4,200 team members who make up KiwiRail team. 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 2024 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.

FINANCIAL

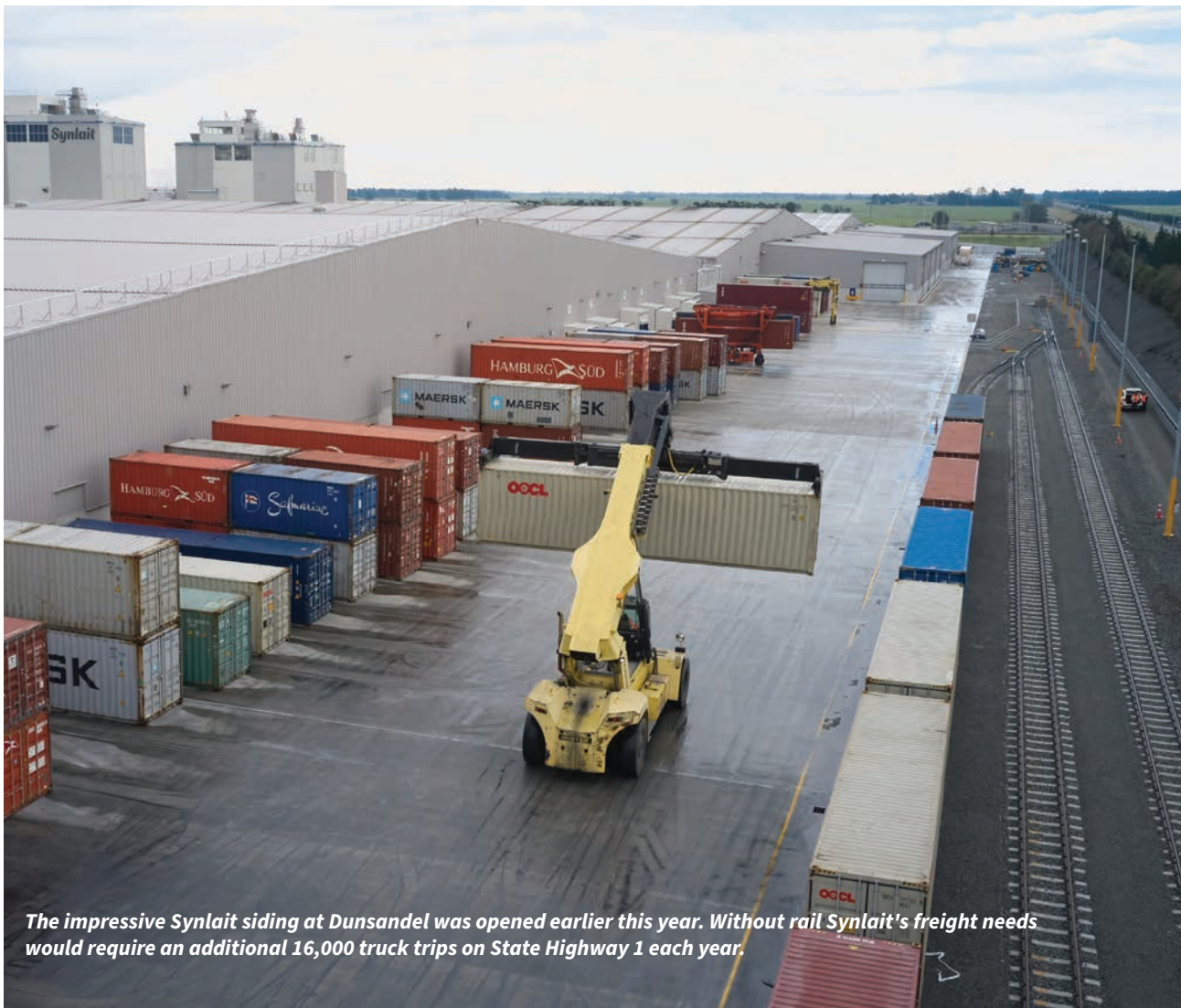
KiwiRail continues to be affected by the impact of Covid but despite revenue decline in some freight sectors and the devastating impact that New Zealand's closed borders have had on the company's tourism businesses, we are currently on track to exceed the FY21 financial

operating budget surplus. This has been achieved by a company-wide focus on putting customers first. We have maintained our network service offering throughout disruptions, having a clear focus network-wide on strict cost control, aligning capital to revenue-earning services and integrating our service offerings to improve use of our resources.

A central feature of our strategy has been a commercial reset for key customers, aligning our service offering and prices with the market, with significant progress made during FY21. KiwiRail will continue to assess all contracts and non-contracted terms of trade every year as we move to an AI/digital platform.

Covid continues to create on-going uncertainty around revenue projections particularly for Tourism and Interislander revenue potential.

Government investment is required to support KiwiRail's above rail business for a short period as it transitions to being commercially sustainable. KiwiRail continues



The impressive Synlait siding at Dunsandel was opened earlier this year. Without rail Synlait's freight needs would require an additional 16,000 truck trips on State Highway 1 each year.

to drive financial accountability within the business. This includes holding all profit and loss centre owners responsible for delivering against the agreed budgets, to optimise above rail investment to drive commercial performance. As outlined below, FY22 will see KiwiRail transition to new planning and funding arrangements under the RNIP, including new governance and monitoring requirements.

NEW PLANNING AND FUNDING MODEL FOR RAIL

This SCI marks the first period of the new planning and funding model, with below rail (network investment) funded from the NLTF from 1 July 2021. Under the new planning and funding framework, investment decisions will be made under the LTMA. This means the national rail network will be funded on a long-term basis alongside the rest of the land transport system, including the road and public transport networks.

Rail network funding for the national freight and tourism network will primarily come from the newly established Rail Network activity class, with the money that funds this coming from the NLTF, track user charges and a top up from the Crown. NLTF funding will also support ongoing investment in the metropolitan passenger networks through the Public Transport Infrastructure activity class, alongside funding from other sources.

To access the NLTF funding, KiwiRail has produced the first RNIP which sets out the work programme for the next three years (with a forecast for the 10-year period) to continue the work that will deliver a resilient and reliable national rail network.

KiwiRail will continue to fund its commercial freight and passenger above rail operations from the net operating cash flows received from delivering these services. The Crown may provide support only to invest in a commercial growth opportunity (to increase its long-term return) or to deliver an outcome with primarily public benefits (such as the Budget 2021 investment to assemble wagons at the Hillside Engineering Workshops). This new approach to planning and funding the rail network, along with the other investments in rail, will recognise both the commercial and broader policy objectives of investment in the rail network, and will enable KiwiRail to secure existing services and lay the foundations for growth as a profitable business.

We're excited about taking the next steps towards getting this work underway and investing in the future of rail for all New Zealanders.

RELATIONSHIPS

ENGAGING OUR CUSTOMERS

KiwiRail has continued to invest with its customers' needs in mind, and to make it easier to do business with us. Digital improvements are making the way customers make and manage bookings significantly simpler and we are also in the process of rolling out wagon traceability.

Replacement programmes for wagons and South Island locomotives means KiwiRail's freight customers can plan with confidence to grow and choose rail as their preferred method of moving freight.

New ferries and port terminals to be delivered mid-decade are being designed to meet future demands of our road, rail, and tourism markets.

The Government's support to secure land for a future freight hub at Palmerston North will enable KiwiRail to plan ahead to meet future freight and logistics needs in the central North Island.

COMMUTER DEMAND

KiwiRail enables commuters to make more than 35 million low-carbon journeys in a typical year. We have two regional commuter services – the Capital Connection between Palmerston North and Wellington, and the five-year trial of the Hamilton to Auckland Te Huia commuter service which began in April 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 is building a metro network that meets customer demands for capacity, resilience, performance, reliability, and safety across the next three decades.

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 respond to meet the changing needs of the market.

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 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 throughout regional New Zealand. This includes a programme of regional maintenance and capacity upgrades to rail in the South Island and Northland.

The drainage and regional maintenance project currently underway is creating up to 200 jobs in the regions and ensuring our regional railway lines remain resilient and can support freight growth from logs, dairy and other goods.

COMMUNITY

KiwiRail is part of hundreds of New Zealand communities. As one of New Zealand's largest property owners, with 18,100 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 32 cycleways completed next to the network with more than 20 others in design or construction. KiwiRail also supports its staff who wish to undertake community work.

IWI

KiwiRail recognises its duty in growing New Zealand's rail capability and understands the importance of being the kaitiaki of the rail corridor and ensuring the longevity of the rail network. Partnership has always been, and always will be, a key foundation of KiwiRail's growth



and we are currently exploring a range of commercial opportunities to partner with iwi within our commercial property business.

Recently a kawenata (agreement) was signed between KiwiRail and Te Ātiawa o Te Waka-a-Māui Trust in Picton, documenting the commitment to the shared partnership and continued collaboration, with future kawenata being worked on and supported by our executive team across the whenua.

KiwiRail’s relationships with iwi and hāpu are constantly evolving. The Covid pandemic has resulted in a shift in our engagement platforms but no change in the desire to further our relationship with iwi.

The support of Te Kupenga Mahi, KiwiRail’s 30+ year old Māori network has an extremely positive impact on our overall engagement and our ability to appropriately operate within Te Ao Māori. Te Kupenga Mahi and its many representatives work together to establish and ensure the formation of relationships with iwi and the continued education and support of our internal teams through building future leaders with the Toi Toi Māori Leadership programme, Te Reo language classes and waiata gatherings encouraging everyone from all ethnicities to attend and get involved. The mahi that KiwiRail and the Te Kupenga Mahi representatives do is a sign of the strong dedication to the pursuit of true partnership between KiwiRail and iwi and the strength and importance of Māori within KiwiRail.

GOVERNANCE

With a large transformation programme including significant capital investment, strong governance is required to ensure success. The Board of Directors of KiwiRail is appointed by, and accountable to, the Shareholding Ministers for the performance of KiwiRail. The expectations of the Shareholding Ministers for the governance of KiwiRail are communicated to the Board via an annual Letter of Expectations. Further guidance is also set out in Owner's Expectation document, 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 the year. These committees are described further in the table below. KiwiRail is also continuing to enhance our engagement with government agency stakeholders as we progress our strategic capital investment programme.

<p>RISK ASSURANCE AND AUDIT COMMITTEE</p>	<p>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.</p>
<p>GOVERNANCE AND REMUNERATION COMMITTEE</p>	<p>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.</p>
<p>HEALTH SAFETY AND ENVIRONMENT COMMITTEE</p>	<p>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.</p>
<p>CAPITAL COMMITTEE</p>	<p>Assists the Board with the prioritisation of capital expenditure, delivery and financial performance of capital expenditure programmes, and the monitoring & assurance system over the capital expenditure programmes.</p>

INVESTMENT IN ASSETS

BELOW RAIL ACTIVITIES

RAIL NETWORK INVESTMENT PROGRAMME (RNIP)

The RNIP sets out a three-year investment programme and a 10-year investment forecast for the national rail network – the thousands of kilometres of track and associated infrastructure such as signals, tunnels, and bridges, that provide the network for rail freight and passenger services in New Zealand.

The total investment from the National Land Transport Fund over the next three years for the national freight and tourism rail network is \$1.2 billion, with an additional \$152 million for the metro rail network (\$130m for the Auckland network and \$22 million for the Wellington Network).

NORTHLAND

The Government this year committed funding to construct a 19km spur line to link the existing Northland network to Northport and upgrade the rail line north of Whangārei to handle heavy freight trains. This came in addition to an investment of \$218.5 million from its PGF to revitalise Northland rail. The investment is being used to upgrade and renew the asset from Swanson to Whangārei over a two-year period, re-open the line between Kauri and Otiria and to acquire land for the corridor to Northport. The physical works will improve reliability and resilience, shorten journey times and now allow high capacity intermodal containers to be carried on the Northland line.

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. This will improve inter-regional freight services and the customer experience of the commuters who currently 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 funding from the New Zealand Upgrade Programme (NZUP) are:

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

The Auckland Metro Programme also includes network renewals, control centres and supporting the City Rail Link project. Construction will be phased over several years with projects underway from late 2020. Much of it is expected to be completed by 2024 in time for City Rail Link opening.

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.

The Trentham to Upper Hutt rail double tracking project, is nearing completion after 15 months, final commissioning scheduled for later in 2021.

Renewal of the overhead line equipment, some of which dates back to the 1930s, is also in its final stages, with completion expected early 2022. KiwiRail crews and contractors are currently completing work in the Trentham to Upper Hutt area and this year are also renewing overhead line structures from Ngauranga to Petone and along the Johnsonville Line.

Meanwhile two major projects began this year - a programme of rail upgrade and drainage and vegetation works along the Wairarapa Line, expected to conclude in June 2023, and a major upgrade of Pimmerton Station due for completion in early 2023.



Work in Auckland's Britomart tunnel is part of a long-term commuter strategy of connecting people to housing and employment.

ABOVE RAIL ACTIVITIES

FERRY REPLACEMENT AND TERMINALS UPGRADE

The current Interislander ferries are nearing the end of their 30-year working lives and this replacement programme is now time critical. As the fleet ages, the ferries struggle to meet modern safety requirements, there are rising maintenance costs, high carbon emissions, sub-standard crew conditions and no capacity for growth or increased profitability.

Terminal infrastructure in Wellington and Waitohi Picton is also in need of substantial upgrades to bring it up to modern safety standards and to be ready for the new ferries.

This project is about moving away from a state of managed decline to future planning and investment so that New Zealand has a reliable, safe, and resilient Interislander service by the mid-2020s. It will also cater

for future freight and passenger growth projections, and ensure a more profitable business model into the future.

The new ships are being designed to make a significant contribution to meeting KiwiRail's carbon emission reduction targets of 30 per cent by 2030 and to be net carbon zero by 2050 by providing a 40% reduction in the Interislander carbon footprint (16% reduction of KiwiRail's total emissions).

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

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 improve efficiency and reduce carbon emissions through modern, smart assets with the latest environmental technology. Scoping and procurement processes for these asset replacement and modernisation programmes began during FY19 and have continued through FY21.

During 2020, we initiated procurement of 392 new generation container flat top (CFT) wagons. The first prototype wagon arrived in New Zealand in March 2021 for testing and design verification activities, with the balance of the order due to arrive in late 2021. This procurement represents another step forward in wagon specification, incorporating globally sourced key subsystems and components with superior reliability and whole of life cost.

The procurement process for new mainline locomotives for the South Island is now well underway. An initial expression of interest phase saw 10 responses from suppliers from around the globe. The subsequent formal request for proposal resulted in a short list of four suppliers, with the evaluation and selection process underway and on track to be completed by mid-2021. These locomotives will provide a generational shift in technology, incorporating AC traction, remote condition monitoring and enhanced driver amenities. We expect the first locomotives to arrive during 2023.

Budget 2021 provided \$722.7 million over six years to complete the purchase of the new mainline locomotives, shunt locomotives, and wagons, complete upgrades to maintenance facilities, including a new Waltham Mechanical Hub and safety enhancements to freight trains operating in metro areas.

PROPERTY

KiwiRail has a long-term property strategy aimed at:

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

Where appropriate, we work with strategically aligned partners, to amplify core investment through development partnerships and co-investment.

Looking ahead, we plan to focus on rail-enabled fit-for-

purpose developments and intermodal regional freight hubs, to create efficient conduits for freight movement around the country. In November 2020 we lodged a notice of requirement for a new Central North Island freight hub in Palmerston North, with support from the PGF to purchase the required land. The hub is a long-term plan designed to combine around 11 supply chain industries in a single site, with facilities including a log yard, bulk freight silo, container terminal and warehousing for freight partners. As the project matures, the hub is expected to attract logistics investment into the Palmerston North area, while eventually servicing the entire central and lower North Island.

Engagement has also commenced with the Treasury and Ministers on a proposal to extend the Core Lease of the rail estate from the Crown for a further 100 years. Securing longer tenure over the rail estate is vital to fully achieving the commercial benefit of the land, including maximising KiwiRail's ability to partner and invest for future growth.

PEOPLE

We have a diverse team of 4,200 people, who every day undertake important mahi to keep New Zealand connected and moving. Our people are at the heart of our success and together we're committed to delivering stronger connections for a better New Zealand.

This past year has tested leadership and our organisation's ability to operate in the face of extreme ambiguity; and reinforced the importance of investing in our people, capability, and culture.

Our people strategy is underpinned by four key pillars:

- **Employee Experience & Care**
Cultivating positive, empowering work experiences, and ensuring safe, healthy workplaces.
- **Workforce & Capability**
Investing in our people, building a learning organisation at all levels, and embracing HPHE as a model for change and problem solving.
- **Culture & Diversity**
Being an employer of choice, attracting & celebrating people from all backgrounds and ensuring an inclusive and supportive environment – built on KiwiRail values.

- **Connections**

Strengthening partnerships and connections with our people, unions, industry networks, communities, Iwi, and Government - together building a better KiwiRail for today and future generations.

EMPLOYEE EXPERIENCE AND CAPABILITY

As KiwiRail ramps up the work it is undertaking, we are focussed on ensuring we attract, grow, and retain a workforce that has the capability to deliver our large programmes. Our strategies reflect this need.

Talent management is how we will develop a successful KiwiRail with the diverse leadership and talent needed to make the biggest difference to the future of our organisation and to New Zealand.

Alongside organisational capability and talent management we are working hard to plan, develop and recruit to deliver the skills and talent required to deliver our strategic plan and transform our organisation. With our 'Trades on Track' Apprenticeship Program, over the next two years we will be building essential skills across our frontline workforce. Our graduate and intern programmes are a key pipeline for new talent. This year we have successfully launched 'Kakano mo Apopo - (Seeds for tomorrow) prison programme at Nga Wha Prison; with intakes each six months.

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 modernising our learning facilities and processes with upgrades to Centres of Excellence with Virtual Reality capability.

Our workplaces are safer through investment in rules transformation and progressive rollout of the BeSafe4 safety awareness program.

Our staff engagement rating, measured through the employee net promoter score (eNPS), increased from +24 in 2019 to +27 in 2020.

HIGH PERFORMANCE HIGH ENGAGEMENT (HPHE)

Our HPHE programme has progressed substantially in the last year. We now have a team of four HPHE facilitators working across different parts of the

business. The showcase site, Hutt Workshops, has refreshed its HPHE training over the last year and is focussing its efforts on continuous improvement in all teams, using HPHE methods and protocols. In addition, HPHE training has been provided across an additional seven Rolling Stock teams, including Capital Projects managers across the country in preparation for the upgrade of 20 of the 22 Rolling Stock Asset Services depots this year. Those upgrades will be carried out using an HPHE approach. The Train and Terminal Optimisation projects have improved train departure and arrival times markedly since their development and completion. The Train Optimisation process now needs to be applied consistently across the country for the full benefits to be realised.

We have been successful in the development of an HPHE Charter and Protocols with the Maritime Union of New Zealand (MUNZ). We have joined in an HPHE project with them to look at core crewing levels of Able-Bodied Seafarers and Onboard Services and Catering crew on our Interislander ferries. That project is progressing well after HPHE training was completed in February 2021. This represents a major breakthrough with the maritime unions. HPHE remains a substantial contributor to the development of more engaged and productive workplaces across all of KiwiRail's business units.

DIVERSITY AND CULTURE

Future sustainability depends on a diverse workforce supported by a value based, inclusive culture where all employees have a sense of belonging and respect.

Over the next three years we are focused on:

- Growing our gender diversity and our aspirational goal to increase the proportion of female employees by 2 percentage points per financial year, from 18% in FY21
- Completing our gender pay gap analysis and strategy, and a robust plan to improve our female amenities across New Zealand
- Continuing to roll out inclusion awareness training to help employees understand their own biases, build clear behavioural expectations, and provide effective tools to constructively challenge behaviour



In April a five-year trial of the Te Huia commuter service linking Hamilton and Auckland was launched.

- Supporting our diversity and inclusion networks (Mana Wahine, Rainbow Pride, Te Kupenga Mahi, Kapa Kotahi)
- Evolving our flexible working strategy to improve productivity, employee engagement, and wellbeing.

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 16 per cent increase in Safety, Health and Environment (SHE) work conversations, an 87 increase in staff reporting near-misses or hazards, a 20 per cent drop in total reported injuries, a 50 per cent reduction in Mainline Derailments and 322 per cent fewer terminal derailments in FY21 to date compared to the same time in FY20.

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). 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 them simpler, user-friendly, and effective.

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 us.

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.

KiwiRail continues to implement its new ORA incident reporting system. ORA stands for Operational Reporting Architecture but more importantly, it is Te Reo Māori for “to be alive, safe, healed and healthy”.

We are focussing 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 continuing to foster an innovation culture, mindset, and behaviour across the organisation. Our focus has been on digital innovation

and how automation can unlock greater efficiencies and improve customer satisfaction. Our culture is rapidly evolving with different parts of the business exploring innovative ideas, such as: alternative propulsion systems and fuels, and virtual reality for learning and development. Initiatives in our longer term strategy focus on innovation that will bring about new opportunities, products and services and new ways of working.

DIGITAL TRANSFORMATION

KiwiRail's new capacity management system came into effect in May 2021. This represents a significant step forward for our operations and for rail customers. The new system enables unallocated wagon capacity to be identified and made available to the market on a weekly basis, ensuring existing customer freight needs are met, revenue is maximised and enabling KiwiRail to expand the rail freight customer base.

The new system is a core component of our Digital Transformation. It improves the quality of information for customers, assisting them in booking decisions and, overall, supporting demand-led resource allocation of KiwiRail's rolling stock assets.

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

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 safety and 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.

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 develop our workforce. This is essential to ensure the standard of information is consistent and efficiently distributed across our nationwide teams. More than 30,000 e-learning modules have been delivered and completed online in the past 12 months including inductions, Health & Safety, electrification awareness and yard-based functions.

Covid has accelerated our digital learning strategy and a blended approach, incorporating e-learning and webinars with traditional formats, is already making significant impacts in our learning programmes.

Virtual reality modules reduce our reliance on operational resources and assets for training. The learner trains in a fully immersive virtual world, increasing engagement, efficiency, and safety.

ENVIRONMENT AND SUSTAINABILITY

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.

This means KiwiRail has a unique role to play in supporting New Zealand's goal of achieving a net zero carbon economy by 2050. It is important that we continue to build on our natural advantage as a low emissions transport solution, by identifying opportunities to reduce our consumption of fossil fuels and progress towards a lower carbon future.

KiwiRail was encouraged by the Climate Change Commission's recommendations to set a target for modal shift to rail and coastal shipping by 2030

and welcomes this recommendation. Encouraging modal shift from road to rail will be key in helping New Zealand reduce its emissions. Additional benefits of shifting freight from road to rail include lower levels of road congestion, fewer dangerous air pollutants and better safety outcomes. We will continue to work with Government agencies on a pathway to increase the mode share of rail freight.

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

Some reduction initiatives are already underway such as the procurement of electric shunt vehicles to replace some of the existing life-expired diesel vehicles in our depots. Larger asset renewal programmes such as the South Island mainline locomotives and the Interislander ferries will also help reduce our carbon footprint as their design takes advantage of improved fuel-efficient engines and hybrid 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 work with our freight customers on their sustainability goals. Our 'Steel Wheels' report illustrates their carbon reduction achieved by choosing rail over road. Steel Wheels shows that in the year to June 2020, KiwiRail took more than 1 million truck trips from the road avoiding nearly 237,000 tonnes of CO₂-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, and in order to achieve these outcomes in our Capital Projects we are ensuring that project

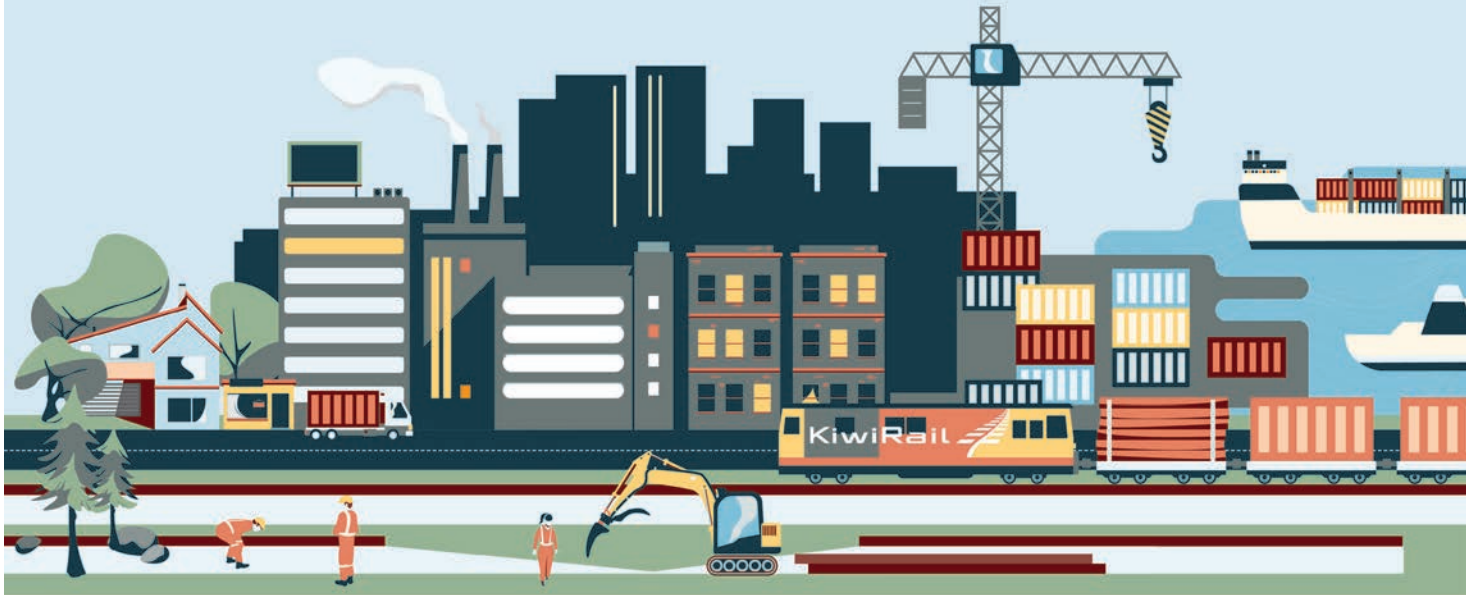
stages are aware of their part in driving these actions. The next action plan will cover Biodiversity (and Biosecurity) and its coverage is being informed by the work being undertaken by Crown property guardians and transport agencies, where we have strong environmental team connections.

The SHE Management System (SHE MS) outlined in the Zero Harm Section is where our environmental guidance and regulatory obligations and accountabilities will be set out. Stakeholder involvement in environmental planning work 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. Most recently KiwiRail supported the drafting of a contractors' Environmental Guide with Civil Contractors New Zealand (CCNZ) and is increasingly working with contractors supporting Capital Projects to build practical tools within the SHE MS for environmental impact reduction.



Under the new funding model the national rail network will be funded on a long-term basis alongside the rest of the land transport system.

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 comprises 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 4,200 people bring the expertise, pride and passion to KiwiRail.



ENVIRONMENT

We are the kaitiaki (guardian) of the rail corridor and the land, air and water in which we operate.

OUR PURPOSE

STRONGER CONNECTIONS.
BETTER NEW ZEALAND.

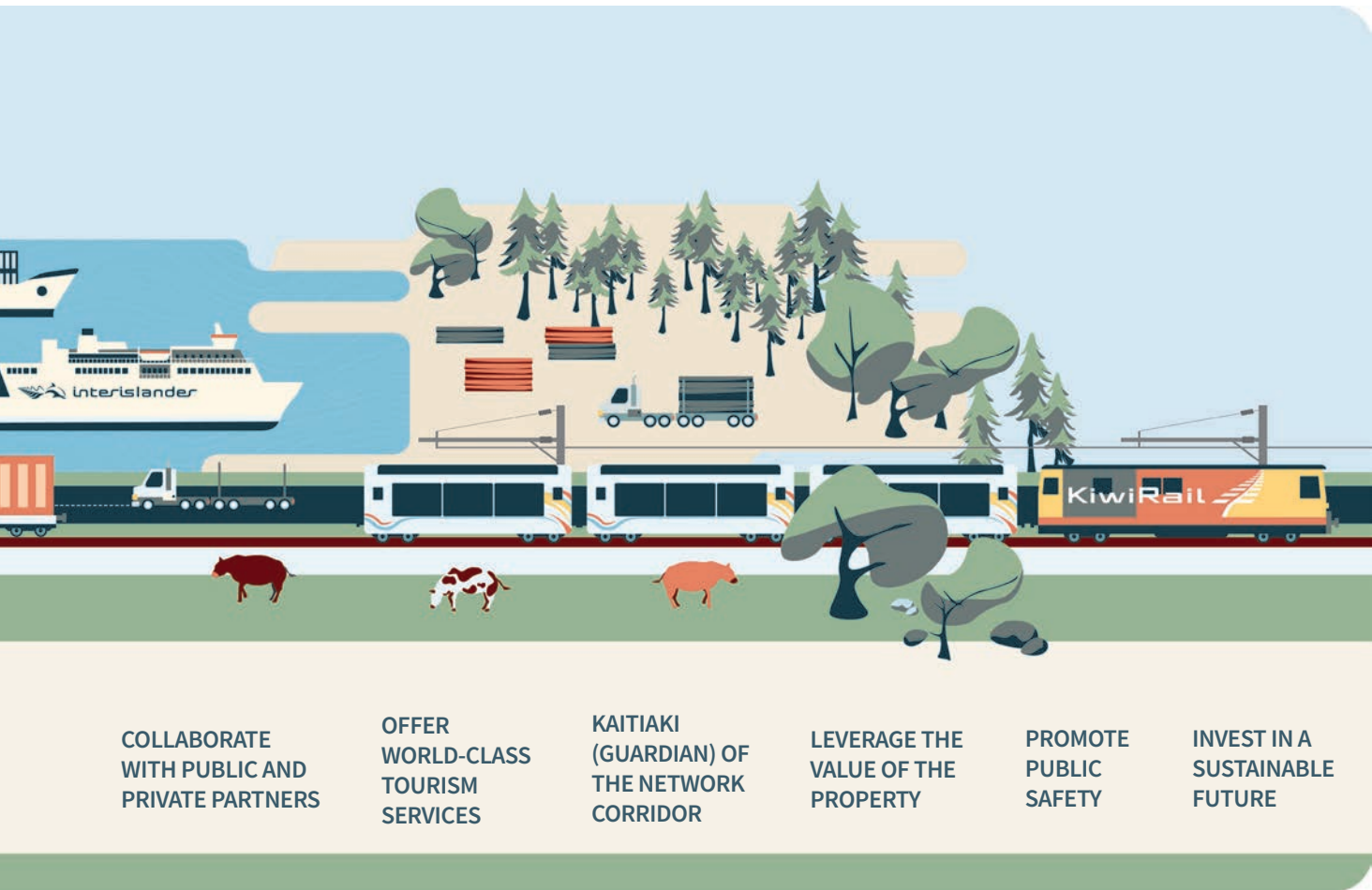
OUR VALUES

CARE
& PROTECT

ONE
WINNING
TEAM

STRAIGHT
& TRUE

GREAT
CUSTOMER
EXPERIENCES



COLLABORATE WITH PUBLIC AND PRIVATE PARTNERS

OFFER WORLD-CLASS TOURISM SERVICES

KAITIAKI (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. This also provides a platform for KiwiRail's continued growth as a commercial business.

ASSETS

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

SKILLS & KNOW-HOW

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

RELATIONSHIPS

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

PEOPLE

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

ENVIRONMENT

We support our customers in reducing their supply chain footprint, as every tonne of freight carried by rail is a 70 per cent emissions saving over the equivalent freight carried by road.

SUSTAINABLE DEVELOPMENT GOALS

We recognise the impacts of our operations and embrace the role we can play in advancing the Sustainable Development Goals (SDGs) of the United Nations.

There are 17 SDGs in total and we have identified three as priorities for our business. We will continue to support the delivery of these goals in line with our organisational strategy and business activities.



ASPIRATIONS AND OBJECTIVES

Under the State Owned Enterprises Act 1986, KiwiRail Holdings Limited (KiwiRail) is required to operate as a successful business and specifically to achieve the following objectives:

- To be as profitable and efficient as comparable businesses that are not owned by the Crown;
- To be a good employer; and
- Exhibit a sense of social responsibility by having regard to the interests of the community in which it operates.

Within this context, the objectives of KiwiRail are to move people and freight by rail and sea and to be the steward of the national rail network. These objectives

are achieved through:

- Profitable and sustainable logistics services to freight markets
- Inter-island shipping services to road, rail and passenger markets
- An infrastructure division delivering asset management and improvements in the rail network
- Commuter and tourism services
- Property management and development

The key performance indicator section provides objectives by capital, supported by the key focus through 2021/22 to 2023/24.





FINANCIAL CAPITAL

OBJECTIVES:

- Grow our above rail business to \$890m revenue per annum by 2030
- Build a resilient, reliable, and sustainably profitable above rail business
- Deliver strong commercial outcomes for freight and passenger operations
- Double value of rail to New Zealand
- Creation of enhanced tourism opportunities and better utilisation of our property portfolio
- Increase rail share of New Zealand freight task

OUR FY22 - FY24 FOCUS:

- Implementation of the long-term funding mechanism and sustainable operating model
- Execute Covid strategic response and recovery plans
- Improve operating ratio of above rail business (EBITDA/External Revenue)
- Increase commercial yields and improve customer terms of trade
- Focus on Profit & Loss management and accountability across the business to drive improved financial performance at an operational level

KPI	2021 Actual	2022 Plan	2023 Plan	2024 Plan
ABOVE RAIL				
Revenue – (\$m) ¹	660	666–682	690–703	699–712
Freight revenue (\$m) ¹	430	439–445	467–472	473–478
Tourism revenue (\$m) ¹	80	76–86	92–100	98–106
Property & Corporate revenue (\$m)	59	59	61	62
Operations revenue (\$m)	90	92	70	66
Operating surplus (\$m) ¹	143	147–162	170–182	178–190
Operating margin (%) ¹	22	22–24	25–26	25–27
Freight Net Tonne Kilometres carried (million)	4,196	4,200	4,420	4,460
Yield of property portfolio (%)	6	8	8	8

1. A range has been presented for financial years 2022 to 2024 reflecting uncertainty around the ongoing impact of Covid-19.



RELATIONSHIPS CAPITAL

OBJECTIVES:

- 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

OUR FY22 - FY24 FOCUS:

- Invest in network, facilities and rolling stock to

maintain core services and enable safe, reliable, and efficient services

- Drive regional growth by delivering on PGF investment
- Commuter rail renewal and upgrade programmes in Auckland and Wellington, and the new Hamilton to Auckland service
- Foster a safety mindset and promote rail safety
- Partner with iwi and other stakeholders on new initiatives in our property and supply chain portfolios
- Grow tourism and deliver enhanced tourism offerings to further support regional economies
- Partner with government agencies to embed sustainable planning and funding model

KPI	2021 ACTUAL	2022 PLAN	2023 PLAN	2024 PLAN
ABOVE RAIL				
Tourist passengers carried (million)	0.7	1	1	1
BELOW RAIL				
Commuter journeys enabled (million)	22	30	34	37
ALL OF KIWIRAIL				
Number of new partnerships (number)	9	4	4	4





ASSETS CAPITAL

OBJECTIVES:

- Resilient and reliable network and above rail assets
- Improved efficiency and safety
- Longer-term integrated asset planning

OUR FY22 - FY24 FOCUS:

- Delivering the strategic asset replacement programme including ferries which are due to arrive in 2025 and 2026, rolling stock/mechanical, and network
- 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	2021 ACTUAL	2022 PLAN	2023 PLAN	2024 PLAN
ABOVE RAIL				
Capital Expenditure – (Core) (\$m)	151.2	206.6	173.7	169.6
On-Time Performance – Freight Premier (%)	85	90	90	90
Reliability – Locomotive Mean Distance Between Failures (thousand kms)	57	50	55	58
On-Time Performance – Interislander – arrival within 15 mins of scheduled time (%)	79	88	88	88
Reliability – Ship services to advertised sailings (%)	98	98	98	98
Locomotive availability (%)	78	82	85	88
Average age of rolling stock – Locomotives (number)	25.3	25.7	23.9	24.5
Average age of rolling stock – Wagons (number)	25.3	20.2	20.0	15.7

KPI	2021 ACTUAL	2022 PLAN	2023 PLAN	2024 PLAN
BELOW RAIL				
Capital Expenditure – (RNIP funded) (\$m)	New measure	231.4	286.1	321.9
All temporary speed restrictions (average TSRs) within target(s) for priority routes ¹	New measure	80% within target(s)	90% within target(s)	100% within target(s)
All Heat 40s (average Heat 40s) within target(s) for priority routes ¹	New measure	80% within target(s)	90% within target(s)	100% within target(s)
Track Quality Index (average TQI) within target(s) for priority and secondary routes ¹	New measure	90% within target(s)	95% within target(s)	100% within target(s)
Sleeper condition rating – 100% of condition five sleepers addressed in priority routes ¹	New measure	20% of condition five sleepers addressed ²	55% of condition five sleepers addressed ²	100% of condition five sleepers addressed ²
ALL OF KIWIRAIL				
Capital Expenditure – Strategic projects ³ (\$m)	676.4	820.3	1,224.1	1,302.9
Achievements of major milestones	Contract negotiations complete with shipyard for build of new ferries South Island Loco contract awarded MNL complete & insurance receipts confirmed NAL open for Hi-Cube Containers Trentham to Upper Hutt double track opens	First refurbished EF re-enters service Auckland Metro Recovery workbank completed	Second control centre established Last tranche DLs enters service Hutt Wheelshop fully commissioned	Wiri to Quay Park Completed Papakura to Pukekohe Completed CRL Commissioned Last refurbished EF enters service First South Island Loco enters service

1. These measures come from the Rail Network Investment Programme which can be found here <https://www.kiwirail.co.nz/what-we-do/projects/rail-network-investment-programme/>
2. This measure is based on addressing the condition five assets already known.
3. Strategic Projects excludes the RNIP and covers Rolling Stock and Mechanical Facilities, Project iReX, NZUP, PGF and other capital projects.



PEOPLE CAPITAL

OBJECTIVES:

- 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, diverse and inclusive workforce for the future
- Have a reputation for engaging employees in business improvements (HPHE)

OUR FY22 - FY24 FOCUS:

- Attract, develop, and retain talent given KiwiRail's ageing workforce and critical goals

- Utilise our capability to deliver KiwiRail's investment programme
- 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
- Increase focus on High Risk Activity through use of Critical Control Verification
- Improve our hazards awareness and near miss reporting
- Maintain emphasis on Health and Safety Action Teams / Health and Safety Committees and achieving increased engagement in site Safety, Health & Environment critical risks, hazard identification, and controls.

KPI	2021 ACTUAL	2022 PLAN	2023 PLAN	2024 PLAN
ALL OF KIWIRAIL				
Employee Net Promoter Score	27	30	32	34
Grow our younger employee demographic (% of total workforce under 30 years old)	15	16	17	18
Women in the workforce (%)	18	20	22	24
Safety, Health & Environment Work Conversations (number)	23,000	15,000	14,000	13,000
Critical Control Verifications (number)	1,461	6,000	7,000	8,000
Safety, Health & Environment Hazard and Near miss reporting (number)	2,346	4,000	5,000	6,000
Safety, Health & Environment High Risk Events (number)	85	69	55	44
Total Recordable Injury Frequency Rate - TRIFR (number)	31.2	25.0	20.0	16.0



SKILLS AND KNOW-HOW CAPITAL

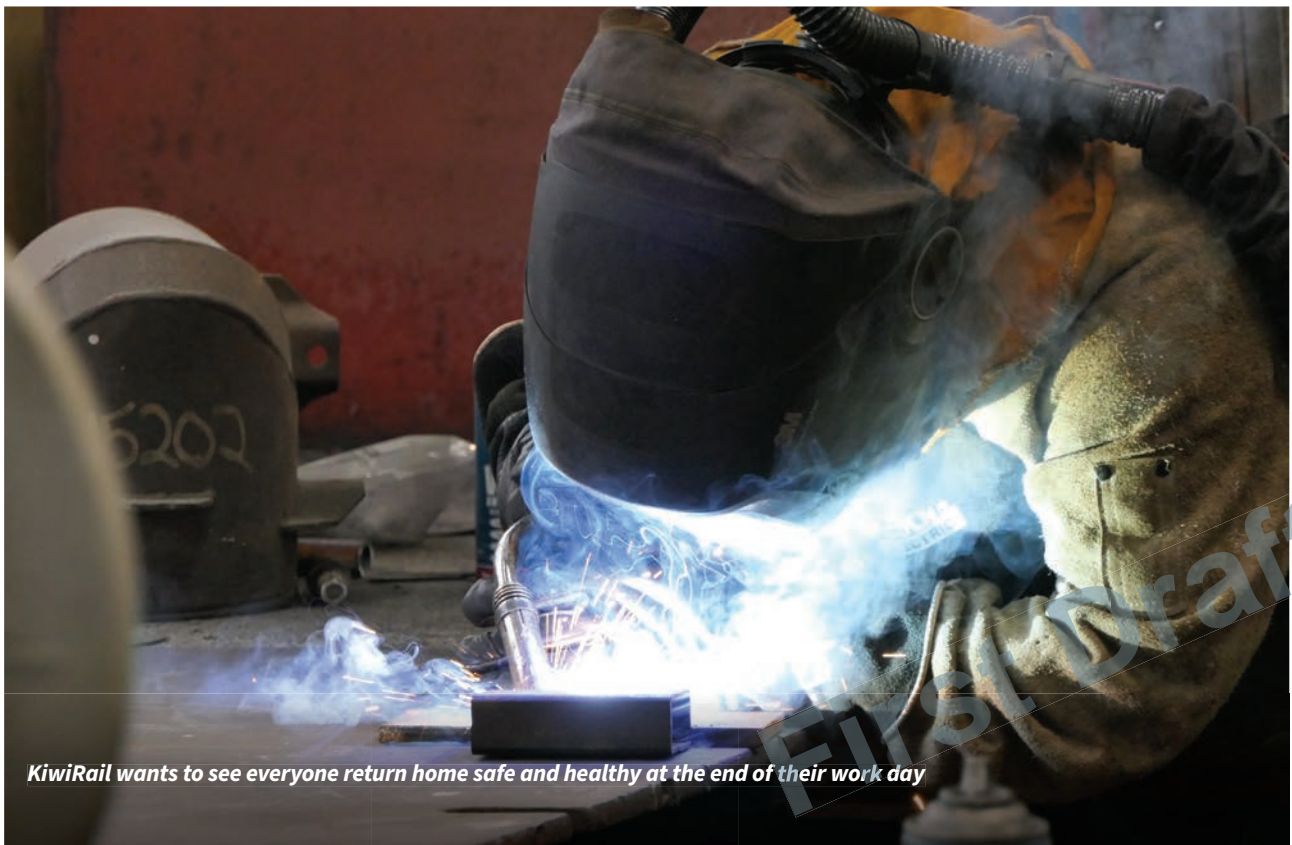
OBJECTIVES:

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

OUR FY22 - FY24 FOCUS:

- Implement Digital Transformation Strategy
- 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
- 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

KPI	2021 ACTUAL	2022 PLAN	2023 PLAN	2024 PLAN
ALL OF KIWIRAIL				
Net digitisation benefits (\$m)	1.7	4.3	5.7	3.3
E-learning programmes run (number)	42,320	34,000	35,000	36,000





ENVIRONMENT CAPITAL

OBJECTIVES:

- 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 FY22 - FY24 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	2021 ACTUAL	2022 PLAN	2023 PLAN	2024 PLAN
ALL OF KIWIRAIL				
GHG emissions per NTK (grams)	26.7	26.2	26.1	26.0
Truck Avoidance (million)	1.15	1.14	1.22	1.23



Current maintenance and renewal programmes in Wellington and those already in development will run until at least FY26.

REQUIRED INFORMATION

	2021	2022	2023	2024
	ACTUAL	PLAN	PLAN	PLAN
SHAREHOLDER RETURN MEASURES				
Total shareholder return	n/a	n/a	n/a	n/a
Return on equity (%)	0	2	1	3

PROFITABILITY/EFFICIENCY MEASURES				
Return on invested capital (%)	1	2	1	3
Operating margin - above rail (%)	22	22-24	25-26	25-27

LEVERAGE / SOLVENCY MEASURES				
Shareholders' funds to total assets (%)	68	83	87	90
Debt to EBITDA	(4.2)	(1.5)	(1.8)	(1.6)
Gearing ratio (%)	3	1	1	1
Interest cover	7.0	28.0	35.3	103.5

GROWTH MEASURES				
Capital replacement	7.3	8.1	12.2	16.2
Revenue growth - above rail (%)	11	3	3	1
Underlying EBITDA growth - above rail (%)	17	13	12	4

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 period of this SCI. 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 Performance Team
- Regular reporting to Treasury's Commercial Performance 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 (unless consultation is otherwise specified by Shareholding Ministers as a condition of their approval of that funding or investment) on:

- Transactions in the course of expenditure of approved Crown funding or investment in KiwiRail; 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

There has been an increase in the commercial value related to operating free cash flows of \$2,663 million. This reflects the introduction of the new planning and funding model.

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 NLTF. 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 RNIP.

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 \$1,419 million has been included; the growth assumption in the terminal value was 2%; the terminal value has increased materially from prior years due to the introduction of RNIP funding from the NLTF
- A risk-free rate of 2% and discount rate of 6% 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 valuation compares with a commercial value as at 30 June 2020 of negative \$2,787 million. The key reasons for the change in commercial value are:

- An increase forecast cash flows of \$237 million as part of KiwiRail’s pathway to profit which incorporates commercial contract terms of trade resets;
- An increase in forecast cash flows, including terminal value, of \$2,258 million due to the introduction of RNIP funding from the NLTF for below rail capital expenditure as noted above; and
- A change in the discount rate from 7% to 6% based on updated asset beta information.

\$M	30 June 2020	30 June 2021
DCF Enterprise Value	(2,787)	(124)
Less Net Debt	(249)	(48)
DCF Equity Value	(3,036)	(172)

THE VALUE OF RAIL IN NEW ZEALAND

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 2021 Value of Rail report. This involved modelling what would happen if the rail network did not exist, for example, if rail freight and metro services were replaced by road transport.

The EY report estimated the total value of rail to New Zealand to be \$1.70 billion - \$2.14 billion per annum from six quantitative areas:

- Reduced travel time and congestion
- Reduced air pollution

- Reduced fuel use
- Reduced greenhouse gas emissions
- Reduced network maintenance and upgrades
- Improved safety outcomes – reducing costs of serious injuries and death caused by crashes.

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

Capital replacement	Capital expenditure divided by (depreciation plus amortisation expense)
Debt to EBITDA	Net debt divided by underlying EBTIDA
Gearing ratio	Total debt divided by (total debt plus equity)
Interest cover	Underlying EBIT divided by net interest expense
Operating margin	Underlying EBITDA divided by revenue
Return on equity	Net profit after tax divided by average equity
Return on invested capital	Underlying EBIT divided by average invested capital
Revenue growth	Current year's revenue divided by previous year's revenue
Shareholders' funds to total assets	Closing equity divided by total assets
Total shareholder return	(Closing commercial value less opening commercial value plus dividends paid less equity injected) divided by opening commercial value
Underlying EBITDA growth	Current year's EBTIDA divided by previous year's EBITDA

GLOSSARY

E-learning	Electronic learning
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
GHG	Greenhouse Gas
Heat 40s	Heat 40s refer to seasonal operational restrictions put in place over lengths (measured in km) of track that are at a higher risk of rail buckling from excessive heat. Prior to the heat season, some lengths of rail are destressed to remove the need for these restrictions.

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.
NTK	Net tonne kilometres
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.
OTP	On time performance
PGF	Provincial Growth Fund
RNIP	Rail Network Investment Plan
Strategic Projects	Strategic Projects excludes the RNIP and covers Rolling Stock and Mechanical Facilities, Project iReX, NZUP, PGF and other capital projects.
TQI	Track Quality index is an aggregated, track-condition measure. It is based on readings from a track inspection machine.
TRIFR	The Total Recordable Injury Frequency is the total number of injuries (all TRIs) requiring medical treatment, per million hours worked within an organisation. 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.
Truck avoidance	Reduction in heavy truck trips caused by freight being transported on rail as opposed to road.
TSRs	Temporary speed restrictions are placed on sections of track due to operational issues. They are reported in terms of minutes of potential delay due to the restriction.
TUC	Track user charge

