

Back on Track

Sustainability Report 2014





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***“We see
KiwiRail as
having an
important
role in New
Zealand’s future
for the next 150
years.”***

Peter Reidy CE

CE Message



Welcome to KiwiRail's first sustainability report/update. With the recent celebration of 150 years of rail and 50 years of ferries, it is timely to reflect on performance to date and think about how we will ensure our business is still adding value into the foreseeable future.

Since we started way back in 1863, steam engines have been replaced with diesel and electric locomotives and our primary source of energy is no longer coal. Rail has also transitioned from being the main form of land transport to providing a key function in a much more integrated transport system. This has meant both a realignment of our services and consequent changes to our employee base and role in passenger transport.

We are now predominantly a freight business playing a crucial role in the supply chain for both New Zealand and international businesses. Our

freight services provide a wider benefit for both communities and the environment - moving goods by rail helps to reduce congestion, road accidents, energy consumption and emissions.

Metro passenger services still play a crucial role in connecting people to their places of work, education and everyday activities. This enables the cities of Auckland and Wellington to achieve the mass movement of people that is such an important part of everyday life. On top of this, we are now one of the largest tourism operators providing experiences on our long distance rail and ferry journeys for both domestic and international tourists.

Rail has needed to become much more commercially focused as regulation was removed and the industry entered a period of competition. This change hasn't been at the expense of our values. We are still essentially a big family, with an even larger extended family of people who have an ongoing interest in the success of rail.

The Back to Basics model that we have introduced across the business is about ensuring we tackle the things which are going to keep us in business for the long haul. This includes engaging with our customers and other relationships we value, empowerment of our people, simplifying the business and the care and protection of our people, communities and the environment.

We see KiwiRail as having an important role in New Zealand's future for the next 150 years. With the speed of change we expect that this might be a very different business to what we manage today. However, our core services of moving freight and people will remain.

Peter Reidy
Chief Executive

What is Sustainability?

At KiwiRail being sustainable is about ensuring we undertake our business in a way that creates value both for our business and the people and environment we rely on to be successful. This includes future generations and the wider environment.

Creating value will differ from relationship to relationship and will include, for example, financial returns (shareholders), safe working conditions (employees), improved amenity (trackside neighbours), sponsorship (community groups), transport resilience (the region) or lower greenhouse gas emissions (future generations).

To be truly sustainable we will need to ensure that this assessment of values is integrated into our thinking as we make decisions around purchasing, development, project management or talent attraction. This is a journey we are now embarking on.

The infographic is contained within a white rectangular box with a thin border. It features nine distinct icons arranged in a 3x3 grid, each with a corresponding text description below it. The icons are: a truck, five people, a tree, a fuel nozzle, three cars, a money bag, a group of people, a handshake, and a group of people. The text descriptions are: 'Removing 1.4 million truck movements from our roads', 'Helping commuters make 24 million low-carbon journeys each year', 'Diverting 470,000 tonnes of carbon emissions', 'Avoiding 185 million litres of diesel consumption', 'Reducing congestion, making our roads safer', 'Contributing \$692 million to our economy', 'Helping community groups, schools and sports groups to travel and move freight', and 'Creating long-lasting two-way relationships with customers, suppliers and other stakeholders'. Horizontal dashed lines separate the rows of icons.

- Removing 1.4 million truck movements from our roads
- Helping commuters make 24 million low-carbon journeys each year
- Diverting 470,000 tonnes of carbon emissions
- Avoiding 185 million litres of diesel consumption
- Reducing congestion, making our roads safer
- Contributing \$692 million to our economy
- Helping community groups, schools and sports groups to travel and move freight
- Creating long-lasting two-way relationships with customers, suppliers and other stakeholders

About This Report

KiwiRail has had a sustainability function within the business since 2011. While this is KiwiRail's first external Sustainability Report there has been internal reporting and tracking of key metrics since 2012. The timing for this report enables the business to communicate how sustainability fits into the new Back to Basics business model.

While we have considered international reporting standards in the preparation of this report KiwiRail does not proclaim to have followed any particular standard. The data and statements made in this report have not been independently assured.

The report covers the period from 1st July 2013 to 30th June 2014.

Our Business

KiwiRail is a New Zealand Government-Owned Enterprise which owns and operates New Zealand's rail transportation network and the between island ferry service. We are in the business of operating and optimising transport and supply chain networks to enable New Zealand's economic growth.

Moving Freight

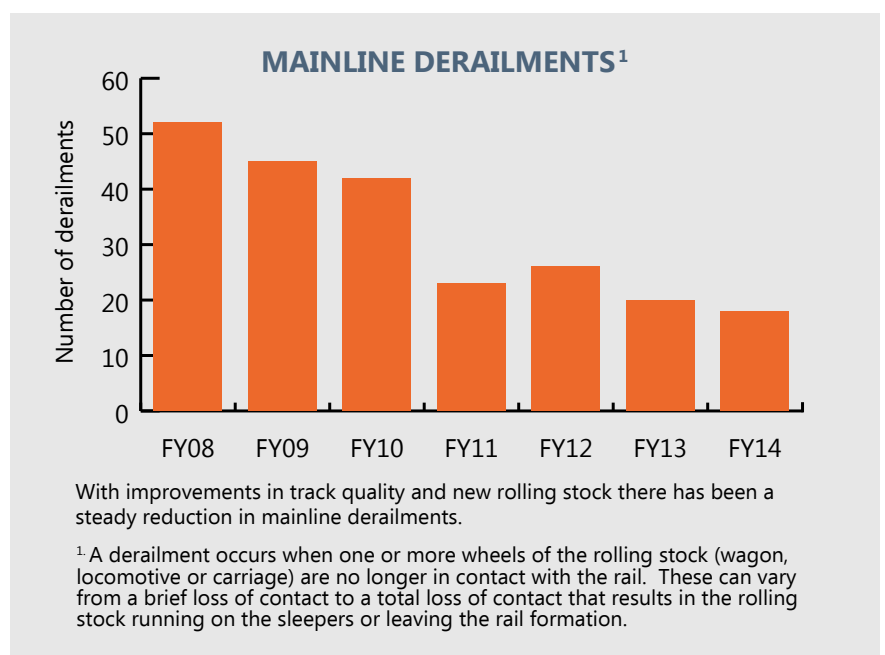
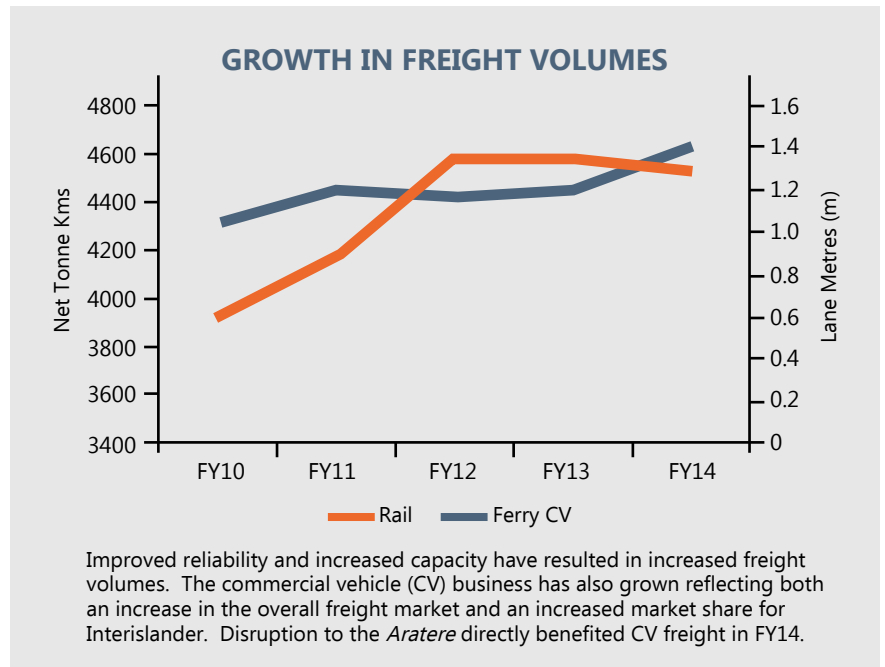
Freight is an essential part of the economy, particularly so in New Zealand with the dependence on exported goods for income. KiwiRail is involved in three key areas – domestic, import/export and bulk. Our success in these areas is tied very closely to international commodity prices and the strength of the New Zealand dollar.

Our freight story since 2008 has been one of building the confidence of our customers in rail as a key part of their supply chain. The growth in volume has reflected this confidence. This was affected by issues with the DL locomotives and the *Aratere* ferry in FY14.

Through our investments in locomotives, wagons and network renewals we have increased reliability and on-time performance.

This improved reliability goes hand in hand with increased capacity and network improvements. Over the last 10 years we have replaced 5.2km of bridge length and 637 timber bridge piers, lowered the floors in 20 tunnels and put in place 4.7km of freight crossing loops. Rail grinding to improve track quality has been completed for 74% of the planned 2,800 kilometres.

New Zealand's freight customers have responded by supporting rail



and future-proofing themselves with investments to ensure their supply chain has a strong link to rail. Over the last few years we have increased the number of private sidings for customers and have also seen an increase in businesses locating adjacent to, or within, rail land.

The rail infrastructure in New Zealand is quite unique with rail freight going

over water via rail-decked ferries. Having our own ferry fleet enables KiwiRail to provide a complete service for its inter-island customers. The fleet currently includes two rail-decked ferries. We have created the necessary capacity and timetable to establish a relatively seamless rail freight service from Auckland to Christchurch in line with domestic freight volumes.



INLAND FOREST HUBS

In partnership with forestry companies we are establishing inland hubs at strategic locations where logs can be stored before being transferred to port by rail. There are obvious benefits of shifting log traffic off the road for long distance journeys including lower emissions, less congestion and a reduced risk of accidents involving logging trucks. The hubs are located in Murupara, Woodville, Masterton and Wanganui.



FERRY REPLACEMENT

The withdrawal of the *Aratere* ferry in November 2013 due to the propeller shaft failure was a potentially devastating event for the business. The timing coincided with peak periods for both domestic freight and vehicle passengers putting a significant amount of revenue at risk.

Finding a replacement roll-on, roll-off vessel at short notice that would be able to use the Picton and Wellington berths was not going to be easy. New Zealand is a long way from the main ferry routes in the world. The search for a replacement was supported by UK-based surveyors after a short list of ships was drawn up.

Within three weeks the *Stena Alegria*, had been identified and a team from Interislander went to inspect her. Within eight weeks the *Stena Alegria* was in operation on the Cook Strait.

Securing the ship was not the only challenge as Interislander also had to find a crew to sail her over from Europe.

Managing to overcome these challenges in a short space of time demonstrates the agility of the business to successfully adapt to changing circumstances.

Connecting People

KiwiRail provides a key role in the integrated transport systems of Auckland and Wellington, connecting the North and South Islands by ferry, and as a part of the tourism network offering experiences by rail.

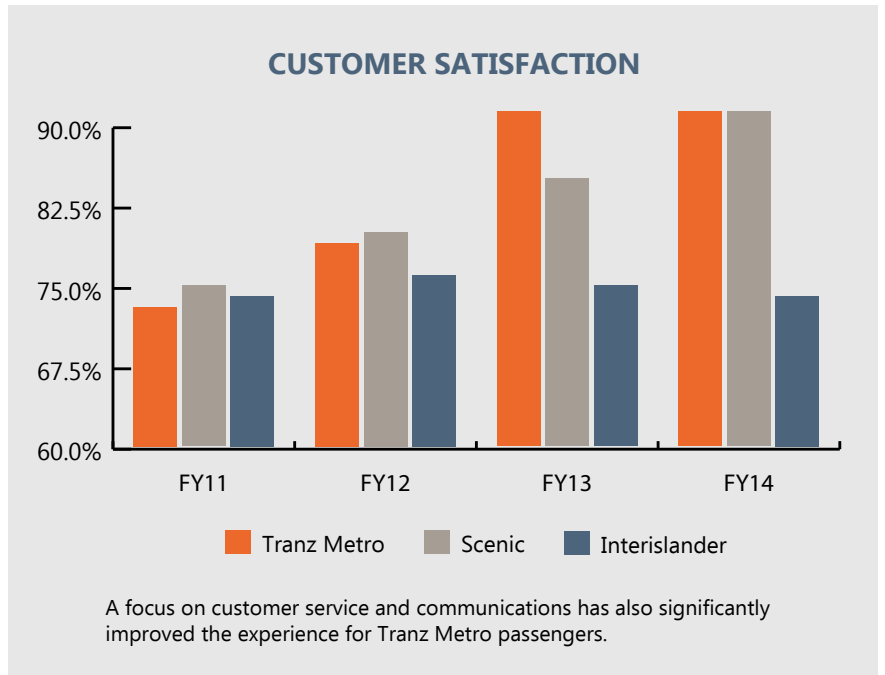
We are continually working to improve our customer experience whether it's a short commute to work, a trip across the Cook Strait or a journey on our long-distance trains. This is all part of building a future generation of train users.

TRANZ METRO

Within the Wellington region the return of rail commuters has been a success story. Between 2001 and 2013 there was a 15% increase in rail passengers. This sits alongside improvements in on-time performance and customer satisfaction.

These achievements are the result of a sustained investment programme to extend the electrified commuter network, remove congestion in peak travel and upgrade the overhead power supply system to accommodate the new Matangi electric train fleet.

A focus on customer service and communications has also significantly improved the experience for Metro passengers.



PASSENGER NUMBERS

	FY12	FY13	FY14
Tranz Metro passengers (million)	11.3	11.4	11.7
Scenic passengers	362,135	312,902	314,479



VALUE OF RAIL – WELLINGTON STORM OF JUNE 2013

A storm hit Wellington on the night of Thursday 20 June 2013. Rail services on the Hutt Valley Line were disrupted for six days due to storm damage. The event provided a unique opportunity to understand the impacts of closing the rail line for this period. The Ministry of Transport headed up a multi-agency review of the impacts².

A survey of commuters, traffic count data, rail patronage figures and an economic evaluation were all used in this study.

The study found that on the Monday following the storm “traffic on State Highway 2 was severely congested with

morning peak-hour conditions lasting two hours longer than usual”. The report estimated that the value of increased travel time at \$5.3 million. The wider impacts on the Wellington economy were estimated to be in the order of \$32 million.

The study helped to confirm the value of rail in relieving pressure on the road network.

KiwiRail’s network teams worked around the clock to repair the sea wall, and stabilise the track and traction poles to be able to reopen the line within one week.

² The transport impacts of the 20 June 2013 storm: the effects of closing the Hutt Valley Rail Line between Petone and Wellington for multiple days, November 2013



SCENIC JOURNEYS

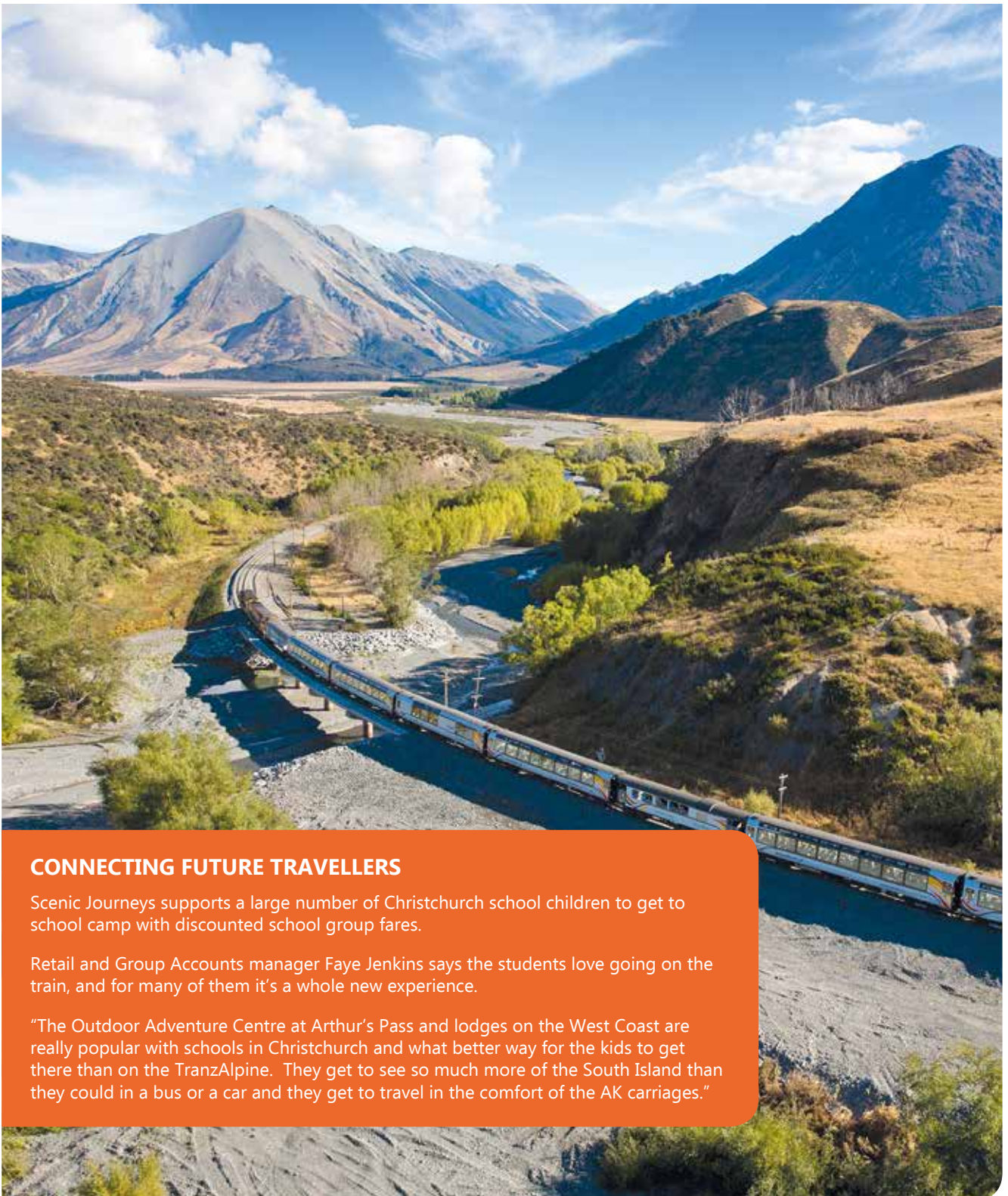
Our long distance Scenic Journeys trains have undergone a transformation and now offer a world-class tourism experience. The Scenic business has reconstructed the previous outdated approach to both the positioning and pricing of the product as a transport option. The introduction of the world class AK carriages in 2011

coupled with a focus on improving the customer experience in terms of both onboard product and service has now positioned our product as a unique New Zealand tourism experience.

We have also altered the staffing structure of the onboard teams in the past 12 months which helped to provide more clarity to the customer service staff roles and responsibilities and their reporting lines. A focus on

staff training and performance levels has ensured onboard staff are capable of delivering exceptional customer service.

These changes have resulted in significant customer satisfaction improvements and have earned high praise from our customers, business partners and the wider New Zealand tourism industry.



CONNECTING FUTURE TRAVELLERS

Scenic Journeys supports a large number of Christchurch school children to get to school camp with discounted school group fares.

Retail and Group Accounts manager Faye Jenkins says the students love going on the train, and for many of them it's a whole new experience.

"The Outdoor Adventure Centre at Arthur's Pass and lodges on the West Coast are really popular with schools in Christchurch and what better way for the kids to get there than on the TranzAlpine. They get to see so much more of the South Island than they could in a bus or a car and they get to travel in the comfort of the AK carriages."

INTERISLANDER

The passenger facilities and accommodation on Interislander's ferry services have been updated over time in line with scheduled dry-docking for other work.

These improvements offer customers a better selection of onboard services and more comfortable seating areas. The intention is to create an experience that ensures the brand has a strong presence in the tourist market where customers are using social media to share both positive and negative encounters. Within the domestic market we aim to attract repeat business from travellers with loyalty to an iconic brand.

It has been a challenging year for Interislander with significant disruption brought about by the propeller shaft failure of the *Aratere*. However, staff and crew have worked hard to retain the level of customer service.

Both Interislander and Scenic Journeys are audited by Qualmark to check their responsible tourism performance. Both services currently hold a Silver endorsement.



KIWI THEME FOR THE KAITAKI

The *Kaitaki* returned in September 2013 after a \$4.5 million refurbishment aligned with a planned dry-dock. The ship now has a distinctly kiwi feel with imagery celebrating both the best of New Zealand's scenery, outdoor activities and some of our sporting heroes. Changes improved the flow through the ship and given it a much brighter fresher feel.

FREEDOM OF THE FERRIES

The Cook Strait is regarded as the second toughest ocean swim in the world. Interislander acknowledges the efforts of the more than 80 people who have swum the Cook Strait by issuing a Freedom of the Ferries Pass. The Pass allow unlimited passenger ferry travel for life. As well as all the swimmers, Interislander has given passes to two men that have provided the support boat for over 20 years.

British swimmer Adam Walker swims across Cook Strait in April 2014 as part of a challenge to complete the world's seven toughest ocean swims and raise money for the Whale and Dolphin Conservation Society



Our KiwiRail Values

With the help of our people we have developed a set of values to guide our business towards a sustainable future.



1. **Care and Protect** is our most important value with recognition across the business that everyone is a safety leader.



2. **One Winning Team** is an expression of the "one business" concept which empowers the workforce to make decisions, value diversity and collaborate to achieve.



3. **Great Customer Experiences** refers to the fundamental need to be commercial, engage with our customers, understand their needs and deliver on promises.



4. **Straight and True** requires us to be honest and up-front and treat people with respect.

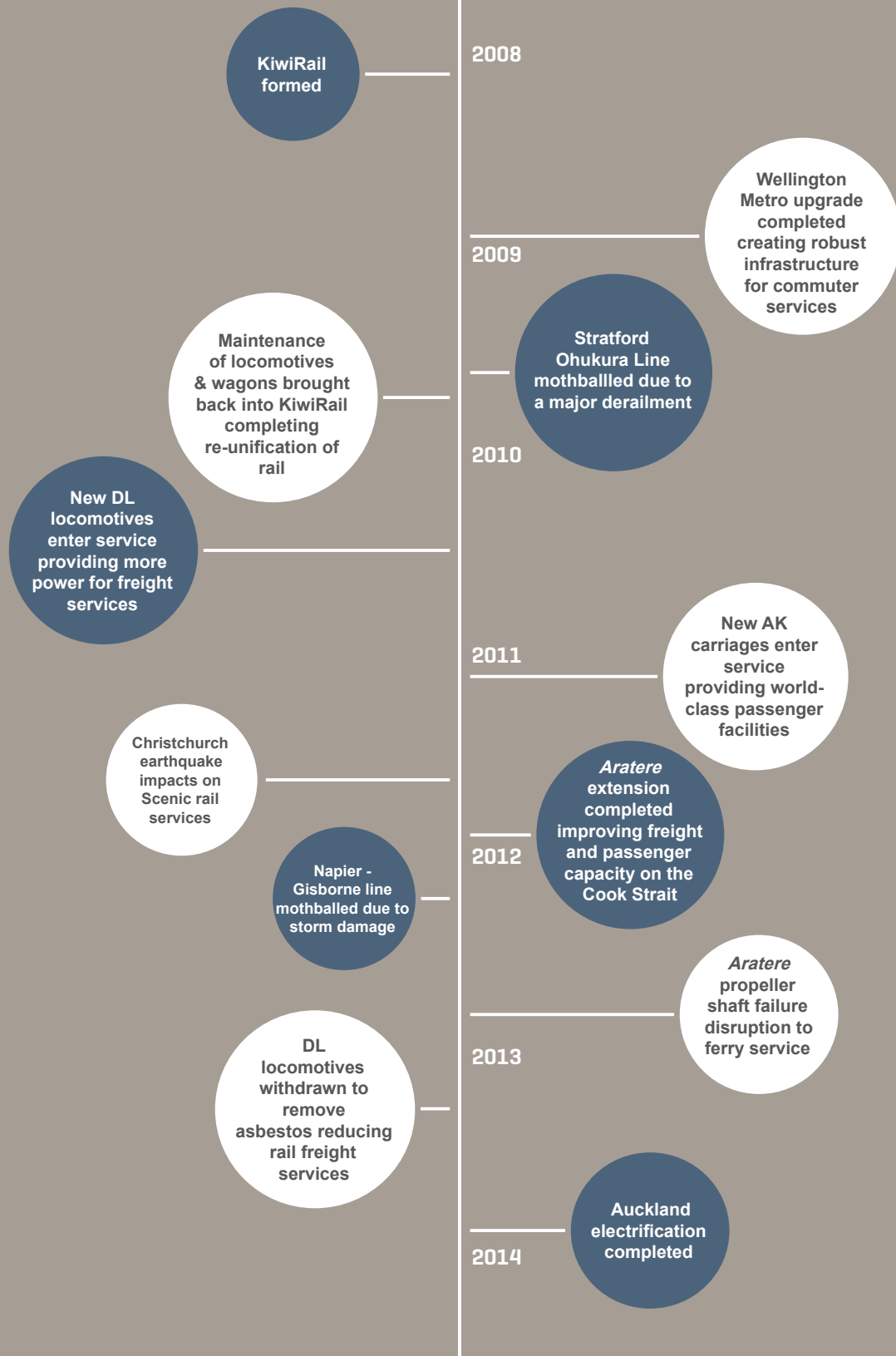


5. **Strive for Excellence** represents searching for opportunities, challenging the status quo and seizing the initiative.



6. **Deliver Results** is a business fundamental that requires us to hold each other accountable and nail our targets

Key Events Since KiwiRail's Formation



How Sustainability fits into Our Business

Our services are already sustainable as they provide a wider benefit to New Zealand in helping to connect people and shift freight while minimising impacts on the environment and community. This creates a strong platform on which to build a sustainable business.

Moving towards a sustainable business requires an assessment of what is involved in delivering those services from initial purchase (sourcing materials, labour practices of suppliers), through the operation (e.g. energy use, employee wellbeing and community disruption), to the end of life (e.g. safe disposal, recycling).

Our 'Back to Basics' approach is our current plan for addressing our immediate sustainability challenges. These challenges include our reliance on government funding, our safety record, improving service levels for our customers, and creating a work environment that enables our people to perform to their best.

Back to Basics focuses our attention on four key pillars of activity:

- Sustaining a Zero Harm Environment
- Engaging our Customers
- Simplifying the way we work
- Empowering our People.

Each of the pillars adds strength to our ability to operate a business that can be financially successful as well as socially and environmentally responsible. These are backed up by our KiwiRail values.

We consider sustainability to be intrinsic to our Back to Basics approach.

Some examples of this include:

- all parts of the business are required to demonstrate environmental accountability as part of the Zero Harm pillar
- acquiring a diverse and capable workforce is part of our Empowering People pillar
- developing stakeholder relationships is part of Engaging the Customer.

Our sustainability expertise sits in our Zero Harm team with the Group General Manager of Zero Harm reporting to the Executive on sustainability matters. We have a Sustainability Advisory Group which provides a wider connection to business functions and guides strategic direction. At Executive and Board level we report monthly on both energy and carbon intensity³. The Safety, Human Resources and Environment Board Committee oversees sustainability within KiwiRail.

We are currently prioritising the areas of work which will deliver the greatest impact for our business and our stakeholders in line with the new Back to Basics model. We know that initially our focus will be on helping our people to understand what it means to be sustainable and how they can include this in their everyday work.

The diagram on page 16 and 17 provides an explanation of how our business adds value over a year. We start the year with various inputs which we use to deliver our services within our Back to Basics approach. At the end of the year we can see the outcomes across economic, social and environmental areas.

³. Carbon intensity – the amount of carbon emitted per unit of output. For the transport industry this is commonly tonne kilometres, passenger kilometres or revenue.

INPUTS VALUE DEPLOYED IN 2014

IN THE KIWIRAIL



FINANCIAL RESOURCES

Capital grants \$93.4m
Cash generated from operations \$723.6m



OUR ASSETS

Property, plant and equipment \$792.6m
282 locomotives
3 ships



OUR PEOPLE

4,100 employees
Average age 46 years
15% female



INTELLECTUAL CAPITAL

Custodian of the country's railway infrastructure
Specialist rail and marine knowledge



STAKEHOLDER RELATIONSHIPS

Customers	Suppliers
Shareholder	Communities
Government	Iwi
Employees	Unions



NATURAL RESOURCES

60m litres diesel
38m litres marine fuel
95 GWh electricity
Water, air, ecosystems

Engaging in Key Relationships



WE MOVE FREIGHT



We service 16% of New Zealand's freight requirement. This connects our export and import markets to the world, as well as helping businesses connect within New Zealand. Our movement of bulk goods such as coal, logs and wood are our biggest earner.

On-time performance

Freight 84%



CITIES



PEOPLE



EXPERIENCES

Sustaining a Zero Harm Environment



DELIVER RESULTS . GREAT CUSTOMER EXPERIENCES . ONE WINNING TEAM .

**SOCIETY
ENVIRONMENT**

BUSINESS

OUTCOMES TO BUILD SUSTAINABLE VALUE

Simplifying the way we work



WE CONNECT PEOPLE



Within our two major cities rail enables people to get to their workplaces, universities, schools as well as access goods and services. Our ferry and scenic rail experiences open up unique parts of New Zealand to both international and domestic tourists.

On-time performance
Tranz Metro 94%

Empowering our People



ECONOMIC DIVIDENDS

Operating Surplus \$77.5m
Volumes
 Freight _____ 4,492m NTKs
 Tranz Metro ___ 11.6m passenger journeys
 Interislander ___ 1.2m commercial lane metres
 I&E _____ 67,000 sleepers laid
 130m of bridge replaced
Capital Investment \$348.8m
Salaries and wages \$280.9m
Domestic spend \$692m (91% of total)
Economy-wide jobs
Modal shift from road to rail reduces congestion



SOCIAL DIVIDENDS

Community
 Discounted / free travel and freight movement for community and conservation groups
Rail Safety
 Seven level crossings updated
Modal shift improving road safety
Maintain rail heritage
Stakeholder partnerships



ENVIRONMENTAL DIVIDENDS

Modal shift from road to rail
 Greenhouse gas emissions saved -470,000 tonnes
 Fuel saved -185m litres



STRIVE FOR EXCELLENCE . STRAIGHT & TRUE . CARE & PROTECT

SOCIETY ENVIRONMENT

What matters

We face significant sustainability challenges in the areas of public safety, worker safety, staff wellbeing, energy use, transport efficiency, environmental performance, service reliability, skill development and diversity and inclusion.

These are matters of importance to both our business and our stakeholders. This is in line with our interpretation that being sustainable requires us to create value for all parties not just KiwiRail.

These matters have emerged from an internal analysis of a range of issues and by surveying key stakeholders.

We are focusing on the matters of most importance with a mixture of existing and planned initiatives. The following provides an explanation of why these issues are of importance and what we are doing to tackle them.

PUBLIC SAFETY

The tragic loss of life and injuries to people, from both trespassers entering the rail corridor and level crossing incidents, is an avoidable and distressing part of the rail interface with the public. This is a key issue for KiwiRail alongside our partnering agencies and local authorities. Our focus is on improving awareness and targeting behaviours that are putting people at risk.

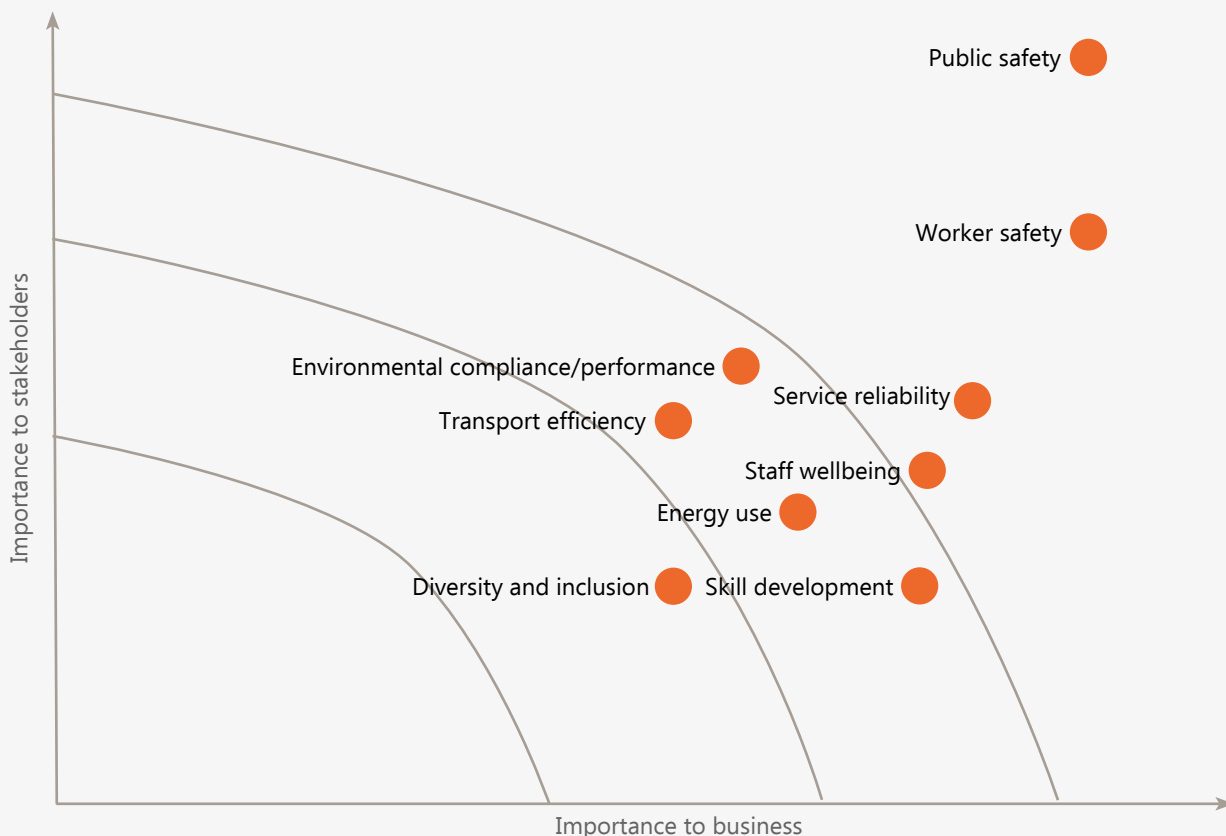
WORKER SAFETY

Ensuring our employees and contractors return home safely each day is a key priority for our business. As part of our Zero Harm programme we are improving the capability of our people, empowering our leaders to take an active and visible position on safety, and working collaboratively on critical risk areas.

Improved performance through the elimination of serious incidents, and on going reductions in Lost Time Injury Frequency Rate (LTIFR) and Total Recordable Injury Frequency Rate (TRIFR) are critical success factors for sustained business performance and growth.

MATERIALITY INDEX

This shows the issues which are most important to our business compared to our stakeholder needs. The business considerations include the impact on cost/revenue, compliance, reputation and relationship to business plans and these are correlated with the deemed level of importance to our stakeholders (customers, shareholders, employees, suppliers, regulators and local communities).



STAFF WELLBEING

With a number of physically and mentally demanding jobs within our business and the risks associated with operating heavy machinery, the health of our workers is important. We have formal medical standards to manage acute risk and are developing wellbeing initiatives to improve the general health of our workforce.

ENERGY USE

Rail accounts for less than 2% of the energy used by the transport sector while completing 16% of the freight task⁴. We are investing in energy monitoring technology to enable us to maximise this advantage but we recognise that the age of assets is a constraint we will have for some time. We expect to continue to focus on efficiency but will consider other alternatives where they can deliver benefits in the short to medium term.

TRANSPORT EFFICIENCY

Enabling both freight and people to move with efficiency through the country and within regions is crucial for our economy and society. Rail offers efficiencies through its ability to move large volumes of people or freight using a comparatively small amount of energy and taking up a narrow land footprint. KiwiRail's focus is on ensuring that customers are able to access these services and that they receive the level of service they expect.

ENVIRONMENTAL PERFORMANCE

While rail delivers environmental benefits for New Zealand through lowering carbon emissions we still have a responsibility to reduce our impact on land, air, water and ecosystems. Our potential impacts tend to be associated with our sites and on projects where concentrated activity occurs. Within the corridor, noise and vibration, noxious plants and trackside fires are all issues we need to contend with. The Zero Harm approach applies to the environment as well and we have started working on internal guidance that will improve our understanding of this interface and our impact on it.

⁴ Rail accounts for 4.2 billion tonne-kms of the total 26.3 billion tonne kms.(National Freight Demand Study, 2014)

⁵ Incidents in the corridor can include wandering stock, collisions at level crossings, vandalism, fires, flooding, coastal inundation and slips

SERVICE RELIABILITY

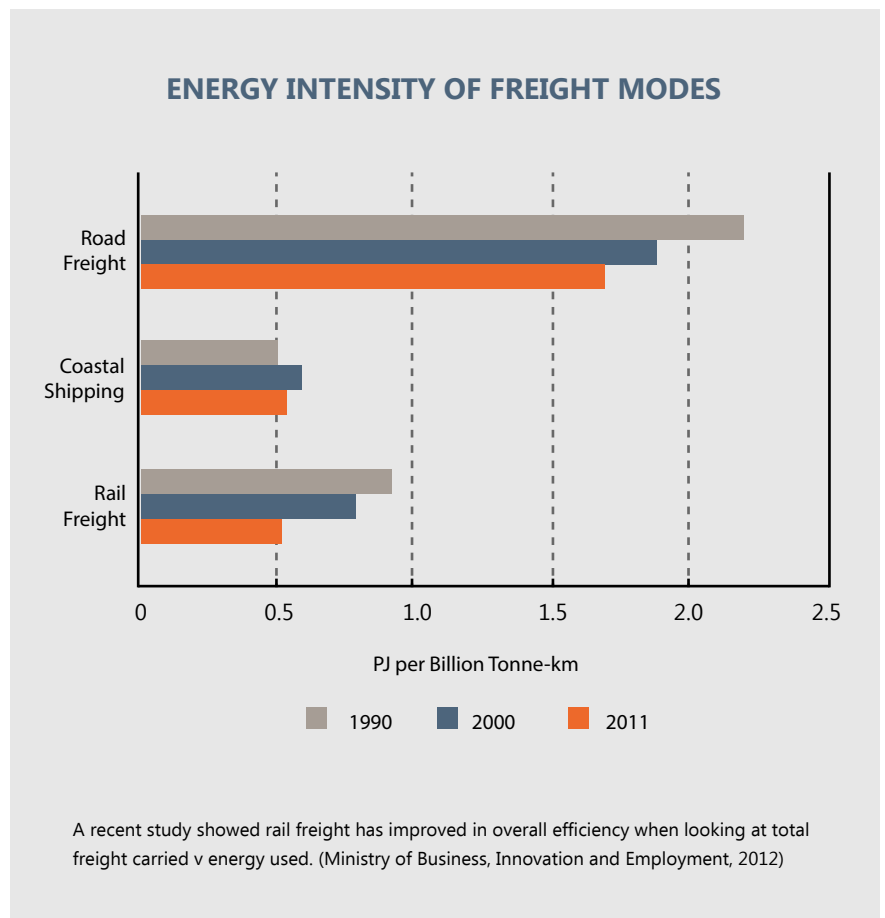
Delivering services on time with limited disruption is key to our freight customers continuing to commit to rail as part of their supply chain. It is also essential for Metro services where commuters are relying on rail. Incidents in the rail corridor⁵, operational performance and mechanical failures are the main causes of service disruption. While we cannot control many of the incidents that occur in the corridor, we are continually improving the resilience of the network. Improving our operational performance requires a continual focus and we are engaging with our frontline leaders on how we can make improvements. Mechanical failures are related to the age of our equipment and these are steadily reducing as new rolling stock is introduced.

SKILL DEVELOPMENT

To be able to deliver our customer service promise requires a team of skilled, motivated and engaged employees. Like other businesses we are experiencing skills shortages in some key areas. We are addressing this through a combination of recruitment, internal development and ensuring we maximise the talent pool we have across the KiwiRail Group.

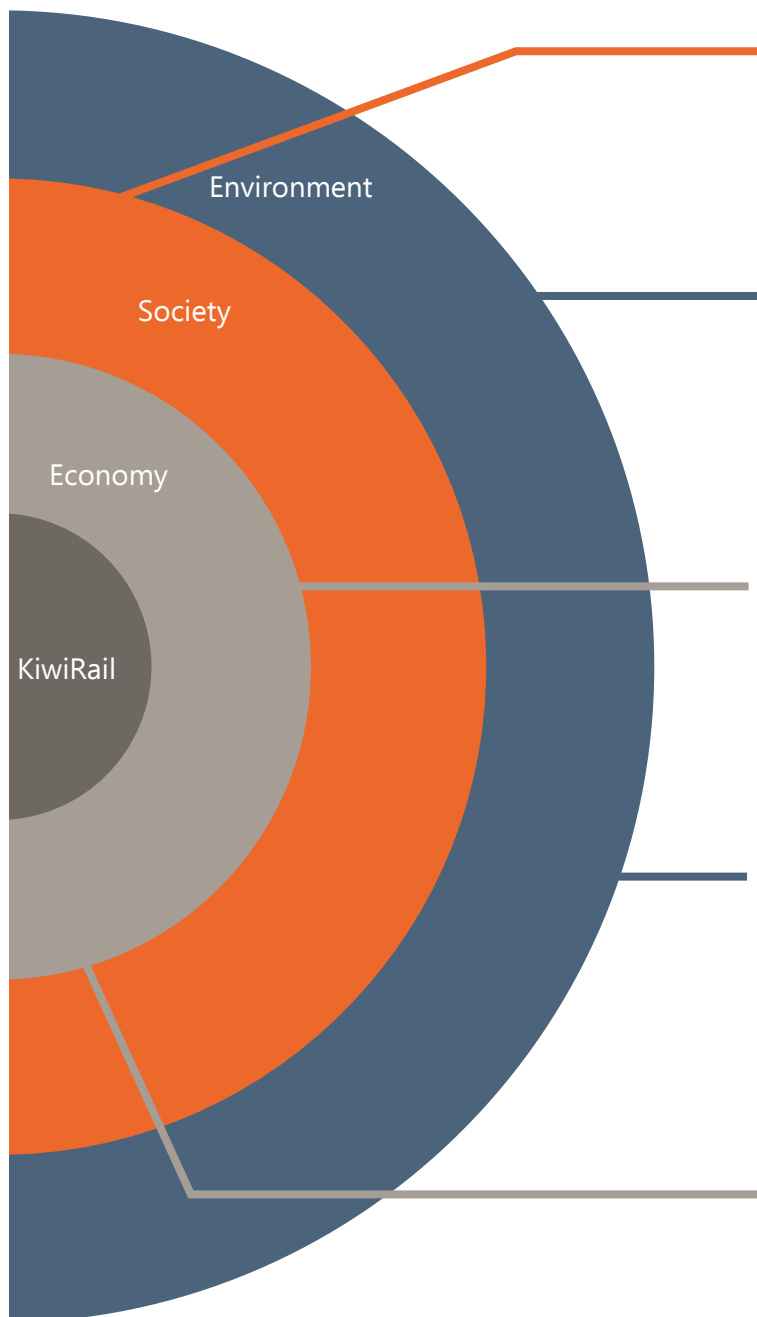
DIVERSITY AND INCLUSION

New Zealand is increasingly becoming a multi-cultural society and women are increasingly over-represented in the top performing university graduates. For KiwiRail we recognise that we need to be able to attract and retain a wide diversity of people and thinking to reach our goals. Improving diversity is a key objective of our Human Resources team.



Business Context

Our business does not operate in isolation of the global economy, society or the environment. This creates both opportunities and challenges in a journey towards building a sustainable organisation. We are aware of these and we are developing our strategy accordingly. Some relevant examples of challenges and opportunities include our ageing population, resource optimisation, big data (large and complex data sets), international shipping and climate change.



AGEING POPULATION

The average age of New Zealanders is increasing due to a combination of increased life expectancy, the ageing of the baby boomer generation and declining fertility. By 2016, and projecting through to 2045, it is expected that older workers (those 55+) will be the most represented age group in the workforce.

RESOURCE OPTIMISATION

The combination of peak oil, worldwide energy demand and climate change are shifting economies to look at low carbon ways of achieving the same or increased production. This has created a worldwide resurgence for rail as governments and businesses invest to future proof themselves against energy pricing shocks. In New Zealand this has led to an increased demand for rail-side land and a desire for new industrial developments to have access to rail.

BIG DATA

The increasing size and complexity of information is changing the logistics industry. The availability of real-time, high quality, reliable data and information creates a significant opportunity to improve productivity, respond better to customers and reduce costs.

CLIMATE CHANGE

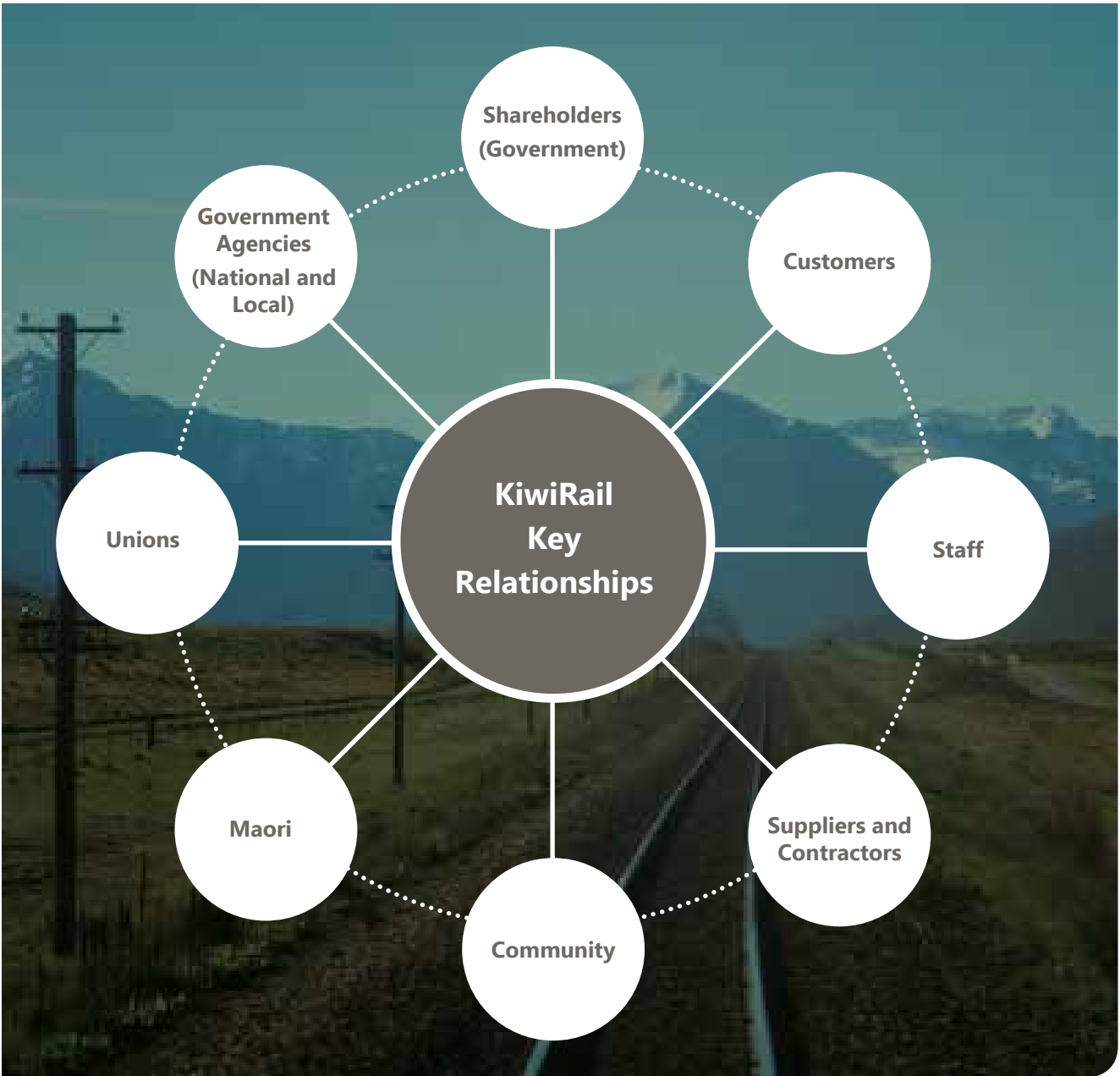
The impacts of a changing climate include higher extreme temperatures, increased intensity of storm and droughts, and rising sea levels. For KiwiRail this creates challenges in maintaining the rail network, reducing disruptions to services, and managing potential fluctuations in customer demand for services (e.g. through the effect of droughts on dairying seasons).

INTERNATIONAL SHIPPING

The pattern of global and regional shipping is changing. The worldwide trend is for bigger ships. This limits the ports that are able to accommodate them, and potentially changes the frequency of visits, on the basis that the ships carry more so arrive less often. This creates an opportunity well suited to the strengths of rail: the ability to respond at short notice to changing schedules; be flexible in the type of freight handled; and to shift large volumes quickly.

Engaging in Key Relationships

KiwiRail understands that listening to and responding to customers' requirements will ensure that service delivery meets their expectations. This also holds true for the various people and organisations that have an interest in our business. However, we acknowledge that to truly achieve shared value and have 'sustainable' relationships will require proactive engagement.



The following are some examples of relationships where KiwiRail has achieved proactive engagement.

KEEPING WELLINGTON RAIL COMMUTERS HAPPY

Our Tranz Metro services received an award and recognition through positive customer survey results for the improvements in on-time performance and customer service.

The Chartered Institute of Logistics award for Implementation and Practice was awarded jointly to both Tranz Metro and Greater Wellington Regional Council for the work undertaken to develop and deliver a high-quality rail service to residents and visitors to the Wellington region. The award acknowledged KiwiRail's service excellence training for Tranz Metro staff, including: more emphasis on timely communications; actively improving engagement with Tranz Metro staff; network upgrades to provide more reliable passenger services; and consistently high punctuality — even without factoring in extreme events.

The survey conducted by Research New Zealand covered all aspects of a Tranz Metro customer's journey. More than 93% of customers rated their journey as good, very good or excellent. The timing of the survey covered some significant network disruptions with the June storm event and earthquakes in July and August.

TAUPIRI BRIDGE PROJECT

In January 2013 our Infrastructure and Engineering team embarked on a major project to replace one timber rail bridge and undertake maintenance

on the other on the North Island Main Trunk Line (NIMT) north of Taupiri. The bridges are located close to the Taupiri Maunga, the resting place of many Waikato Tainui ancestors and chiefs, including the Whare Kaahui Ariki (Māori Royal Family).

In previous projects KiwiRail has relied on external consultants to manage the consultation with māori and other stakeholders. On this occasion KiwiRail decided to develop a direct relationship with the Tainui people after the experience of another project in the Waikato Region. This was a relatively new experience for KiwiRail and it was fortunate that the project team was able to call on representatives of Te Kupenga Mahi, the Māori network for staff within KiwiRail, for assistance. Te Kupenga Mahi were able to help foster the initial contact with Tainui and to assist with the proper protocols in meeting with Māori.

The majority of the discussions with Tainui focused on the bridge work and ensuring that both environmental and cultural elements would be respected during the process. However, the access to the Taupiri Maunga and particularly the urupa arose as a key issue for Tainui. The urupa is accessed by crossing the railway line creating a safety hazard for pedestrians and also vehicles. It became apparent that this issue would need to be worked through as part of the bridge project and not as a separate issue. This widened the involvement of KiwiRail to include other parts of the business and also brought in other stakeholders like the New Zealand Transport Agency.

As a result of the relationship developed between KiwiRail and

Tainui, members of the project team were invited to provide a stall at the annual celebration of the Kings Coronation in 2014.

With the appointment of Downer Group as the contractor they became closely involved with Tainui in the lead-up to the construction.

This project is helping to create a model for engaging with Māori and helping to improve the way in which KiwiRail works with iwi groups and other stakeholders.

IMPROVING BRAND AWARENESS

Across the suite of brands within KiwiRail there are varying degrees of awareness among the New Zealand public. The Interislander brand is very strong and well recognised. The Scenic Journeys brand has had a lower profile while our Freight business operating under the KiwiRail brand is really only known in a business-to-business context. With significant improvements in levels of services and new assets the 2013/14 year was an opportunity to re-position these brands.

Scenic Journeys launched a 90-second video featuring scenery from all three train routes accompanied by the powerful 'Pearl Fishers Aria' (performed by Samoan Kiwi Tenors Moses Mackay and Pene Pati from Sol3 Mio). The advert with the slogan 'Take a break. Take a train,' was a significant contributor to a 19% improvement in brand awareness between September 2013 and February 2014. It also attracted daily messages of praise for the ad from viewers.



Our Freight services also produced a powerful commercial linking the supply chain with the consumer. The ad connected an everyday commodity, honey, with the logistics role that KiwiRail performs on a daily basis. The video helped to position KiwiRail in the supply chain for both the producer and the consumer.

TRACKSAFE

One of our key relationship developments in 2013/14 was to enter into a sponsorship with the newly established charity TrackSAFE NZ. KiwiRail has previously been a major sponsor of the Chris Cairns Foundation which became TrackSAFE NZ after amalgamating with harm prevention charity TrackSAFE in Australia. KiwiRail's Chief Executive is the Chair of TrackSAFE NZ which is governed by representatives of the New Zealand Transport Agency, the Australasian Railways Association and TransDev Auckland.

TrackSAFE provides an important role in educating the public and improving awareness about rail safety. Through a formal memorandum of understanding with TrackSAFE (Australia) the New Zealand public benefits from the research and planned activities of the Australian rail industry and its partners.

For KiwiRail the relationship with TrackSAFE helps to spread the rail safety awareness message beyond the targeted rail safety week that occurs each year.

PARTNERSHIP APPROACH TO PLANNING FOR INTEGRATED TRANSPORT

The Christchurch rebuild has presented an opportunity for a fresh approach to planning for future freight transport demands in the Canterbury Region. This work has been led by the Greater Christchurch Strategy partnership with KiwiRail contributing to the Freight Study and the Integrated Transport Statement – both of which were released in 2014.

KiwiRail has had a dedicated Southern Development Manager in place since the earthquakes in 2011. Initially this role was helping to co-ordinate the immediate response. It has now evolved to provide the key linkage between KiwiRail and other organisations involved in the rebuild and planning for the future. The refreshing aspect from the involvement with the Greater Christchurch work has been the willingness by all parties to put aside their self-interests to plan for

a future that is going to be beneficial to Canterbury and ultimately New Zealand as a whole.

The region faces some real challenges in deciding where to rebuild and the access to transport networks is a key part of this consideration. The partnership approach has enabled a more robust assessment of the resilience of the transport infrastructure and consideration of where there might be capacity constraints in the future. For example, the arrival of peak times trains into Christchurch is dictated by Cook Strait ferry timetables and tends to align with peak road travel times creating a future potential issue of delay at level crossings. Putting these issues on the table in advance allows the partnership to work through some possible solutions in a collaborative way.

Collaborative working is not new to KiwiRail with prior involvement in the Upper North Island Freight Study as one example. This way of working is expected to increase as integrated transport becomes more of a reality. This will create a requirement for the business to dedicate people to these projects as they emerge.



Image from Rail Safety Week 2014

Community Contribution

Our community focus is across four main areas – public safety, improving corridor appearance, preserving rail heritage and supporting groups through travel or freight services. Within the 2014 year we estimate that \$280,000 worth of discounted travel was provided to the community. The following is a snapshot of some of our involvement with the community.

PARTNERING TO CLEAN UP THE CORRIDOR

Seven large grey signal boxes for the rail crossings in Ngāruawāhia have been transformed into stunning works of art by local artists. The murals brighten up the rail corridor and deter tagging of signal boxes.



CITRUS FOR CHRISTCHURCH

KiwiRail provided a key link in moving a shipment of free citrus from Whangarei to Christchurch. Collected by locals to brighten up earthquake-hit Christchurch residents. The fruit was moved in partnership with Mainfreight.



TANEATUA BRIDGE

Responding to Edgecombe community concerns about the safety of an old rail overbridge in the main street, Project Manager Emma Cowell led an effort to have the bridge removed. In collaboration - Whakatane District Council, KiwiRail and a number of other organisations came up with a plan that minimised disruption to the community. The job involved KiwiRail local area staff in Hamilton, and local gangers as well as contractors Transfield and Pollack and Sons.



GOODWILL EXPRESS

Each Christmas our Tranz Metro staff team up with the Salvation Army in the Wellington Region to collect donations for the Salvation Army's Food Bank appeal. On a Saturday before Christmas dedicated trains running on the Johnsonville, Kapiti and Hutt Valley lines stop at each station for a few extra minutes to enable donated goods to be loaded onboard.

CYCLES TO DUNEDIN

KiwiRail helped to solve a problem for the Dunedin bike library. Christchurch Inner City East project had a surplus of bikes from its own community scheme but getting 70 bikes to Dunedin was proving an issue. In partnership with Toll, KiwiRail was able to shift all the bikes for free.

150 YEARS OF RAIL

2013 saw the celebration of 150 years of rail with a special exhibition train touring the country to showcase the business to the public. The display wagons enabled the public to learn more about KiwiRail's different services, and our infrastructure work as well as sharing messages about rail safety. It was an important partnership opportunity with customers and suppliers contributing to the displays.



SUSTAINABLE COASTLINES

For the past few years KiwiRail has assisted Sustainable Coastlines to promote their 'Love your Coast' and 'Love Your Water' campaigns. We shift containers and vehicles for their annual event in Wellington as well as supporting their national roadshow.

Sustaining a Zero Harm Environment

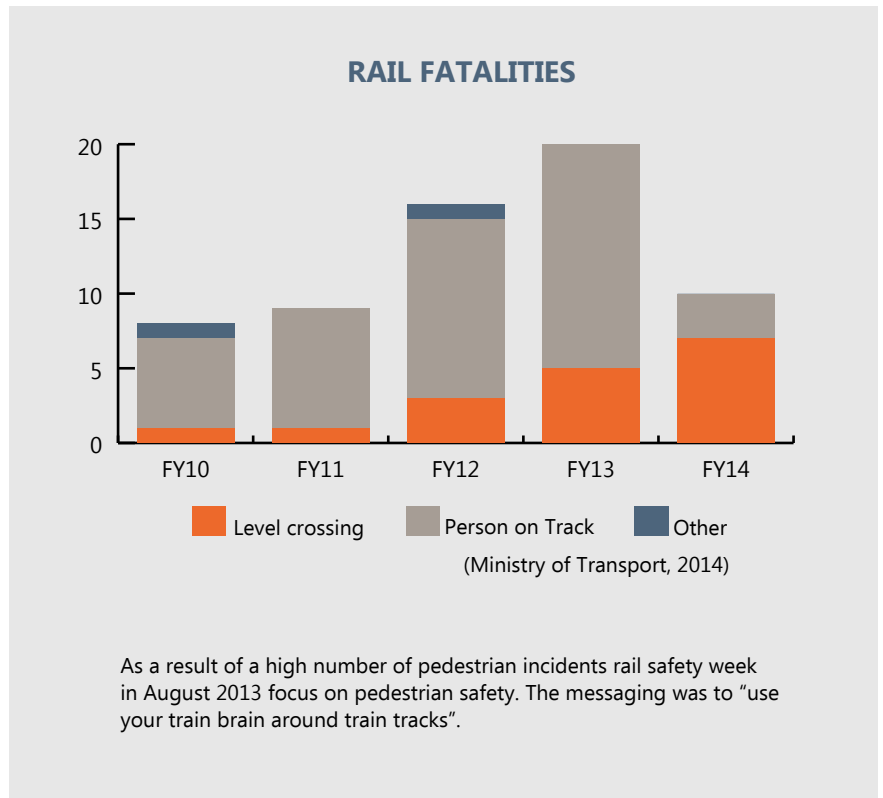
Through visible and active leadership KiwiRail is engaging the workforce on creating and sustaining a Zero Harm environment - preventing injury and harm to our people, the public and the environment.

PUBLIC SAFETY

Our rail operations travel through many communities making the safety of the public in these areas a critical priority. With a resurgence of rail in both metro areas and on freight routes, there are more services, previously unused lines have been re-opened and there has been electrification of the Auckland network. Ensuring that people are aware of these changes and learn to treat the rail corridor with respect is a key role for KiwiRail and its partners.

KiwiRail has had a long ongoing relationship with TrackSAFE NZ (and its predecessor the Chris Cairns Foundation) to improve the public's awareness of rail safety. TrackSAFE NZ has developed rail safety advice and runs safety campaigns with a particular focus on level crossings and trespassing onto the rail corridor. Over the last five years the main cause of fatalities is from people trespassing into the corridor with suicide considered to be a significant contributor. In 2014 collisions at level crossings became the most common cause of death. The rail safety week for 2014 was directed at improving awareness around level crossings.

We have a programme to upgrade the safety protection at public level crossings with around 6 to 8 upgrades completed each year. In 2014, 53% of public level crossings had active protection. We also work with agencies such as NZTA to remove level crossings.



	FY12	FY13	FY14
Level crossing incidents	199	252	295
Trespasser incidents	206	319	408

(Ministry of Transport, 2014)

Reported incidents at level crossings and of trespassers on the rail network have increased substantially. However, this may be attributed to an active campaign to get our train drivers reporting on near misses and people on the tracks.

In addition to public level crossings there are numerous private level crossings. We actively discourage any further private level crossings and any

change in land use that will result in an increase in the vehicle traffic over existing private level crossings.

WORKER SAFETY

The nature of rail operations with heavy machinery and people coming into close contact creates a number of potential hazards. It is our responsibility to ensure that all of our workers are able to return home safely.

With the incoming Safety at Work Act (expected in April 2015) replacing the concept of duties by the employer to employees with duties by the PCBU⁶ to ‘workers’, it is increasingly more important to ensure that all those working for us (in whatever capacity) are kept safe.

We aim to be among the top businesses in safety performance and have adopted the aspirational goal of Zero Harm⁷. In line with this, and to create a step change in our safety performance, we are building the necessary capability, identifying and reducing critical risks, and implementing compliance systems.

A framework and policy for adopting a Just and Fair Culture has been developed collaboratively with both staff and Rail and Maritime Transport Union (RMTU) representatives. This initiative is supported by Life Saving Behaviours (LSB) for the business and an improved investigation capability.

We have a particular focus on developing the safety leadership skills of our frontline people so they provide active leadership and ensure that operating discipline is applied to all our planning and operational tasks. An example of this is the introduction of safety moments at the start of every meeting.

We have identified three areas of the business where we consider there is a critical risk. These are:

- track worker protection
- tunnels
- SPADs (Signals Passed At Danger).

Track Worker Protection

KiwiRail considers track worker protection a priority. Our duty is to provide a safe environment for rail personnel undertaking maintenance and construction activity. During 2013 we commenced a trial of a new system to help improve safety for worksites

⁶PCBU – Person Conducting a Business or Undertaking.

⁷The goal of Zero Harm is to sustain an environment that enables us to prevent injury and harm to our people, the public and the environment.



WORKER SAFETY PERFORMANCE

	FY12	FY13	FY14
Lost time injuries	7.57	12.76	13.62
Total recordable injuries	53.0	54.63	32.95

The increase in LTIs (lost time injuries) between FY12 and FY13 appears to be due to a change in reporting methodology and reporting culture. TRIFR (total recordable injuries frequency rate) reduction is partially due to the change in definition when classifying MTIs (medically treated injuries) and closer scrutiny of individual incidents.

protected by Compulsory Stop noticeboards. This new system known as Eprotect significantly improves operational safety at worksites by providing supervision of approaching trains and automatic interventions to stop a train.

Traditionally worksites have been protected using a series of caution, whistle and stop boards located in advance of the worksite. The train must stop before reaching the stop board and radio ahead to the worksite to

get authority to pass it. *Eprotect* can detect when a train is approaching the stop board too quickly or has entered the worksite buffer protection zone without stopping. In these circumstances, Eprotect automatically activates the brakes on the train and brings it to a forced stop.

The system employs GPS technology and is linked to the National Train Centre operational management system. It illustrates the important part new technologies and innovative thinking have to play in building a

Zero Harm business. Eprotect will be rolled out nationally over an 18-month period.

Tunnels

Following on from earlier work to better identify hazards related to work in tunnels, a newly formed critical risk network has assumed responsibility for the identification of tunnel hazards, recommending where change is required and championing the delivery into the business of improved, safe working practices and equipment.

Stemming from work completed during 2013 on the Otira Tunnel, the learnings are now being applied nationally. This includes programmes to install fire suppression on coal route (Midland Line) locomotives, change out petrol for diesel engines on small plant and improve personal protection

equipment for gas detection and worker isolation, which have been completed or are in progress.

SPADs (Signals Passed At Danger)

Reducing the number of SPADs, or trains going past a red signal, remains a key strategy for the business. KiwiRail has partnered with Australasian rail companies to standardise the way

that SPADs are investigated and how contributing factors are considered. This will enable the business to put in place a response to SPADs that is credible and sustainable over the long term.

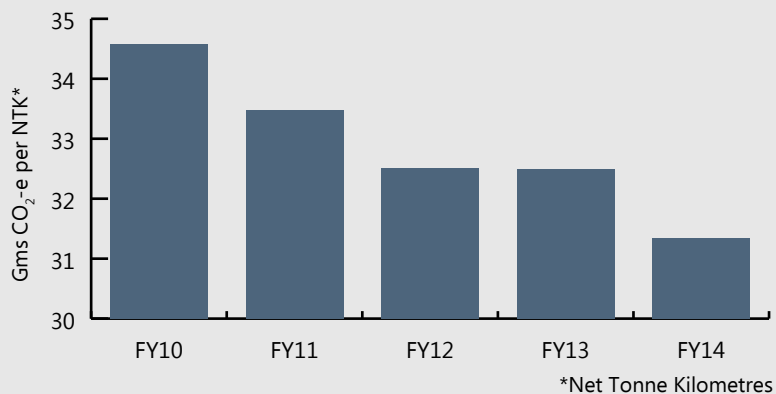
The SPAD workstream will also look at behavioural and technological improvements that can be made to reduce these avoidable incidents.

SIGNALS PASSED AT DANGER

	FY12	FY13	FY14
SPADs* per million train km	N/A	3.48	3.30

*Excludes SPADs that occur within the Auckland metropolitan network where KiwiRail is not the operator.

FREIGHT CARBON INTENSITY



A combination of increased service utilisation and improvements in fuel efficiency has resulted in an eight percent reduction in carbon intensity for freight services since 2010.

KIWI RAIL ENERGY USE (FY14)

Energy Type	Consumption (TJ)
Diesel	2,242
Marine Fuel	1,427
Petrol	25
Electricity	318
Natural Gas	14

GREENHOUSE GAS EMISSIONS

Emissions (tonnes of CO ₂ -e)	FY12	FY13	FY14
Scope 1 (direct) emissions	263,509	277,324	264,491
Scope 2 (indirect) emissions	12,602	12,591	12,034

Our emissions profile reflects both our freight volumes and our efforts to improve efficiency. Scope 2 emissions have reduced as the business has introduced premier services. These trains meet a customer demand for a faster service but consequently are unable to accommodate the time delay to change locomotives for the electrified section of the North Island Main Trunk.

ENVIRONMENTAL PERFORMANCE

Rail is internationally recognised as having a lower environmental impact than other mass transport modes. Less energy is used by rail to shift freight or people and this translates to lower greenhouse gas emissions and less need for imported fossil fuels. By shifting from truck to rail our customers are able to reduce their transport related emissions by 60 to 80 percent⁸.

The majority of our carbon emissions are from fuel consumption with 58

million litres of diesel and 38 million litres of marine fuel used annually. Over the last few years we have introduced two major technology improvements to help us better manage fuel consumption. Energy Miser is the driver advice system we are gradually installing in our locomotives fleet. Onboard our ferries we also have a fuel monitoring system that enables us to review the impact on fuel consumption from both design and operational changes to our ships.

Our new fleet of DL locomotives are equipped with electronic fuel injection and provide far greater pulling power

than our older diesel locomotives. The DL locomotives have enabled us to replace two existing locomotives with one DL on some of our services, offering a significant improvement in efficiency.

We still see a lot of opportunities in our business to improve efficiency and as we address these there will be corresponding benefits for the environment.

⁸ Based on UK truck figure of 123gms per NTK



LOCOMOTIVE DRIVER ADVICE SYSTEM

Achieving the optimal fuel consumption on any given freight journey requires our locomotive engineers (train drivers) to be very familiar with the route, locomotive capability and the nature of the load they are pulling. We have some very experienced drivers who are able to use their

knowledge of the network and driving skills to have consistently low fuel consumption rates. To further improve this performance and achieve a more consistent performance across all of our services we been trialling some new technology.

Energy Miser is a driver advice system providing feedback to

the locomotive engineer on the optimal points in the journey to accelerate, brake or cruise. The system calculates a multitude of factors to arrive at the best driving profile for a given freight service.

We still see a lot of opportunities in our business to improve efficiency and as we address these there will be corresponding benefits for the environment.

Empowering our People

Employing more than 4,000 people comes with a responsibility to ensure not only their safety and well-being but also their ability to make a positive and meaningful contribution on a daily basis.

We recognise that there is a strong connection between being adequately empowered to do a job - with both the authority and the capability - and feelings of loyalty to the business. Improving staff loyalty leads to reduced turnover and improved productivity.

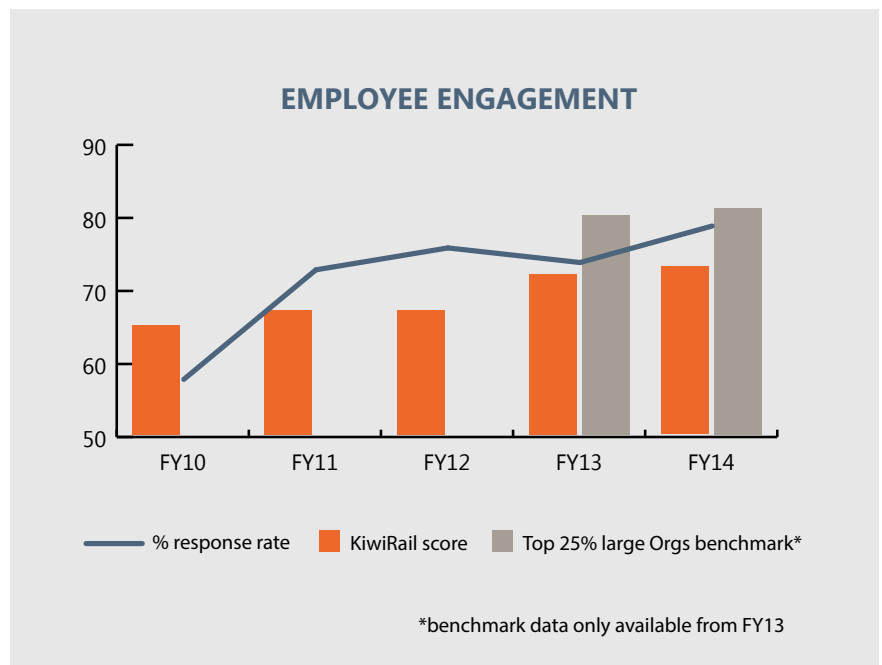
Our various training opportunities offer staff the ability to learn new skills, and take both upward and sideways steps in the business. Regular toolbox meetings, executive level roadshows and our company newsletter are some of the ways we ensure our people are both kept informed and able to engage.

ENGAGEMENT

Engagement refers to the "state of being" with regard to employees, and more importantly how that relates to the aims and ambitions of the organisation. Being engaged means employees have a clear picture of the future direction of the organisation, the contribution their role makes, and actively pursue the goals of the company, promoting it as a great place to work.

Highly engaged employees are more likely to use discretionary effort in performing their daily work, and the outcomes are seen in such metrics as innovation, productivity, safety, customer service, and ultimately bottom line profitability.

Through our annual engagement surveys we can see continual improvement across the group in the



levels of engagement. Like most large businesses we still face challenges in breaking down communication silos between parts of our business and ensuring that there is open communication through all levels of the business. To counter this we

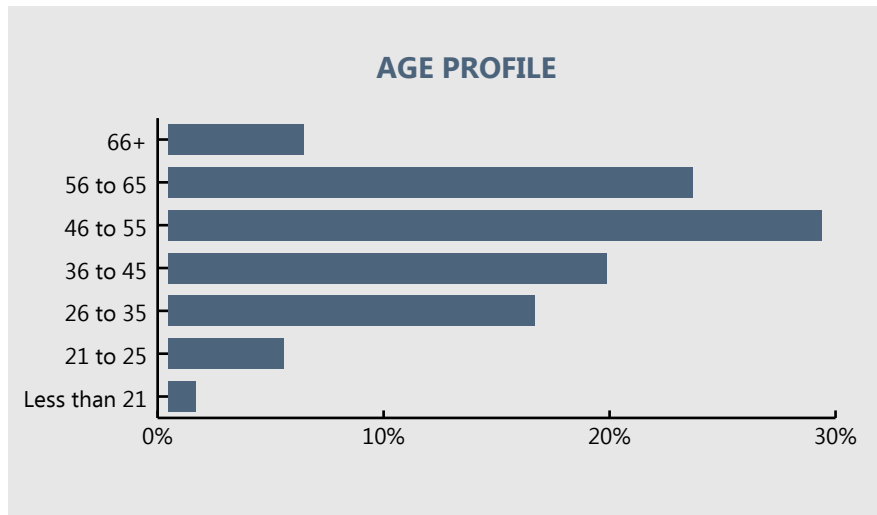
have adopted a 'One Winning Team' value and we are actively encouraging collaboration across the business. An example of this is the critical risk networks where representatives from across the business are collaborating to improve safety.

DIVERSITY AND INCLUSION

Our people have tended to stay with us for long periods, with the average length of employment approximately 13 years. Consequently our workforce, even in the context of an ageing New Zealand population, has a large number of people who are at, or approaching, the tail end of their working life.

Therefore, while we are transforming our recruitment focus to be able to compete for the bright young talent we are also planning for a large contingent of our workforce that are going to be entering retirement.

Rail has traditionally been a male-dominated industry but we are starting to see some females entering traditionally male-dominated roles and progressing including locomotive engineers and ship masters. At present females represent around 30 per cent of KiwiRail’s leadership.



We see the value in creating an environment and culture that encourages an increasing female presence. This will be part of a wider focus on understanding and improving diversity.

We do not formally record the ethnicity of our people but we are aware that we have a relatively high representation of people who identify themselves as Māori. We see this as a key strength for our business.



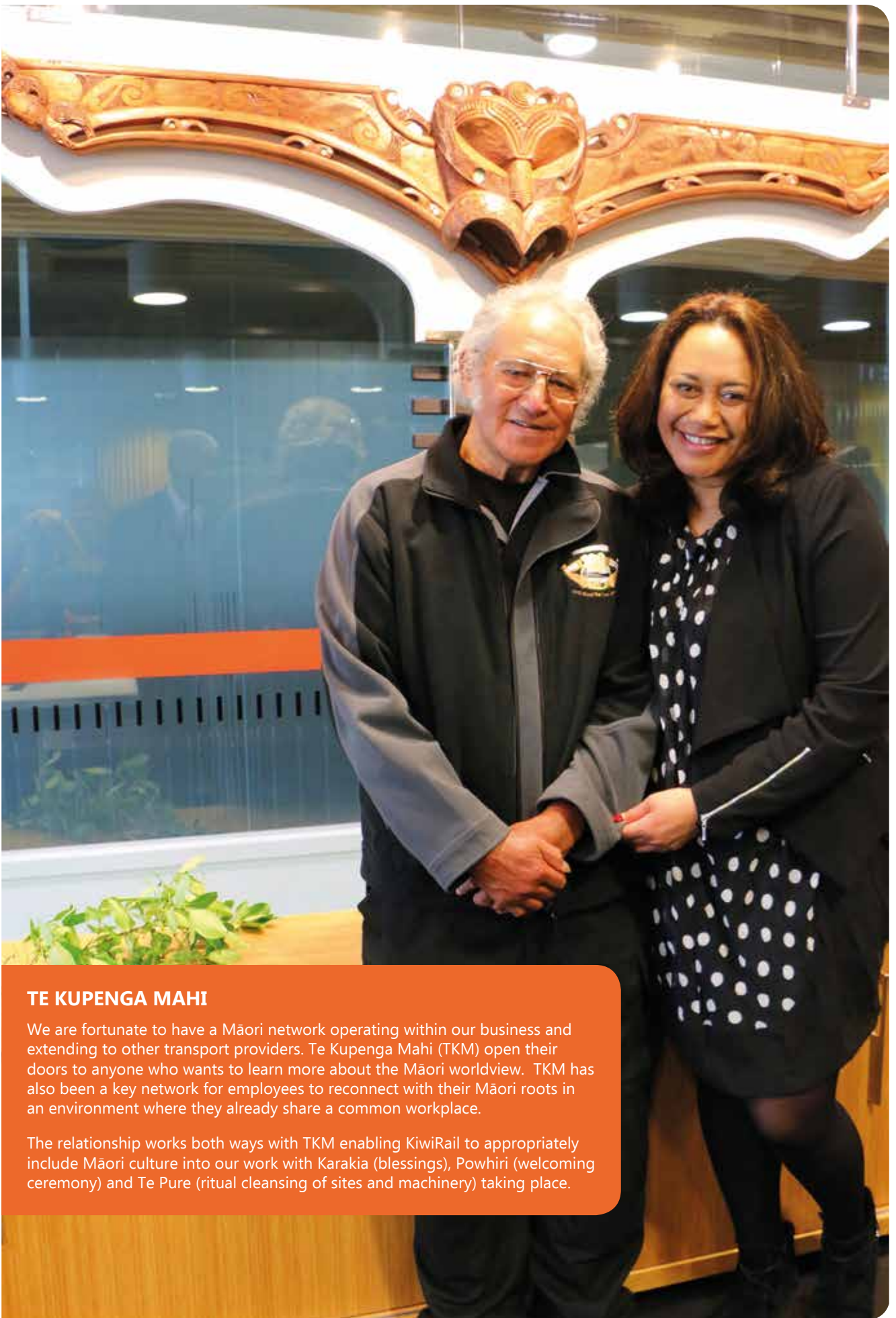
FIRST FEMALE MASTER ON THE COOK STRAIT

Our first female trainee master, Jenny Cuttriss, was promoted from chief mate in 2014. Prior to her promotion Jenny was selected to take the Aratere to Singapore for dry-docking, in an acting masters role. Jenny joined Interislander in 2012 after nine years of working on the Isle of Man ferries.

Jenny has led the way for females working in Maritime positions and she is an inspiration to all women who aspire to work in leadership roles.

Jenny sees joining the ferries as a turning point in her career. “My career really accelerated when I changed to working on the ferries”.

She has some good advice for other woman seeking leadership positions. “Be thick skinned and not worry so much about what people think. If you are doing your job, exceeding the requirements of the job and doing it to the best of your ability, it doesn’t matter what other people think.”



TE KUPENGA MAHI

We are fortunate to have a Māori network operating within our business and extending to other transport providers. Te Kupenga Mahi (TKM) open their doors to anyone who wants to learn more about the Māori worldview. TKM has also been a key network for employees to reconnect with their Māori roots in an environment where they already share a common workplace.

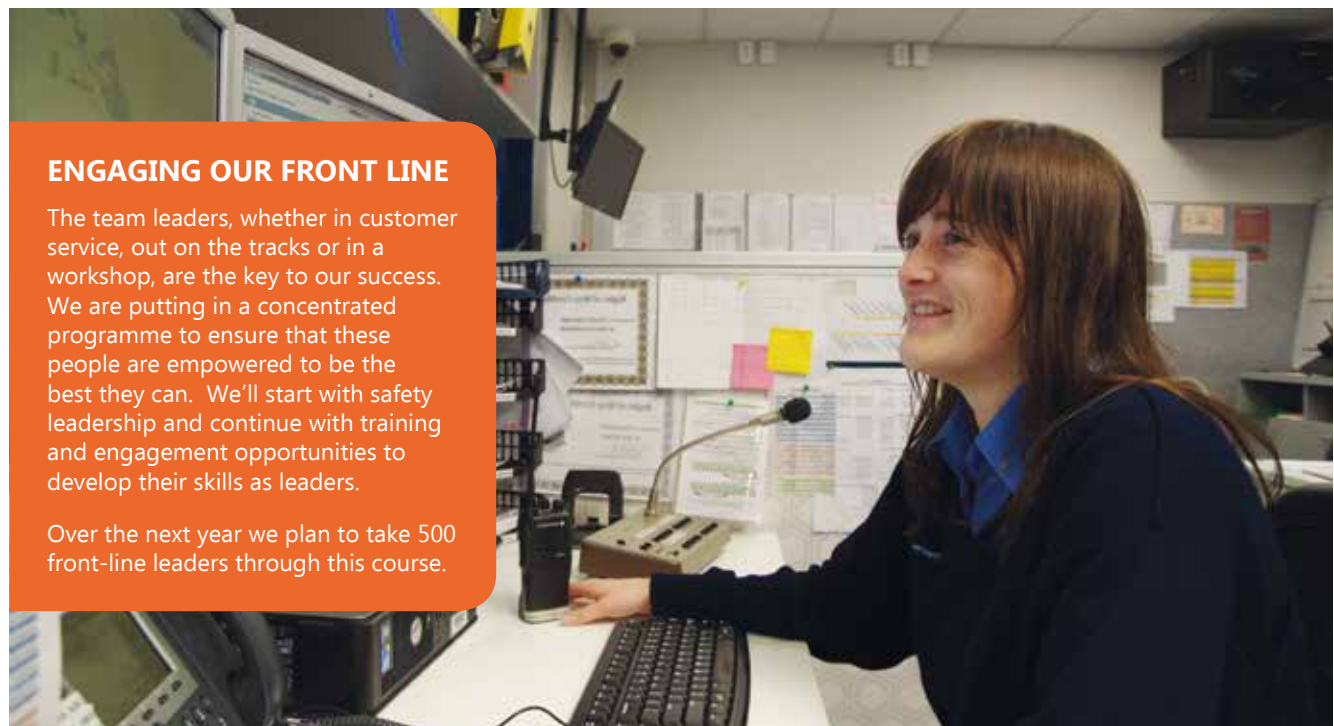
The relationship works both ways with TKM enabling KiwiRail to appropriately include Māori culture into our work with Karakia (blessings), Powhiri (welcoming ceremony) and Te Pure (ritual cleansing of sites and machinery) taking place.

SKILL DEVELOPMENT

We have a number of development programmes in place for our staff. At the basic level we provide numeracy and literacy tutoring to address gaps for our field staff. We also have a variety of programmes designed for our leaders ranging from frontline training to leadership forums.

There are also specific training packages in place to enable our staff to meet the necessary proficiencies required for their roles or to advance to another role.

In some specific roles we have had trouble recruiting the necessary skilled people. In these cases we have turned to other markets where rail is strong, including the UK and Ireland, to fill these specialist positions.



ENGAGING OUR FRONT LINE

The team leaders, whether in customer service, out on the tracks or in a workshop, are the key to our success. We are putting in a concentrated programme to ensure that these people are empowered to be the best they can. We'll start with safety leadership and continue with training and engagement opportunities to develop their skills as leaders.

Over the next year we plan to take 500 front-line leaders through this course.



STAFF WELLBEING

Employee health and wellbeing is a tricky area to juggle as it often involves crossing the increasingly blurred line between work and personal lives. Our approach to date has been a combination of ensuring that our staff are meeting the minimum requirements through medical checks and providing them with the information and motivation to improve their wellbeing. A starting point for this has been the launch of our wellness portal where staff can access information, ask experts questions, link to special offers and access services.

Simplifying the way we work

Our business has evolved through various ownership structures and division of the functions before it became one entity under KiwiRail. Through these changes a level of complexity has evolved which will prove to be unsustainable for the business if left unaddressed.

To improve our operational performance the business needs to become less complex, more efficient and integrated across the supply chain offer

GETTING FIT FOR BUSINESS

We've introduced a new initiative called Fit for Business where we are capturing a range of programmes and projects that will create a step change in productivity and efficiency. With disciplined project management and a real sense of urgency we are identifying areas of waste and working on removing these. We expect to see sustained cost savings that will demonstrate to our shareholder and the New Zealand public that we are on track to financial sustainability.

IMPROVING ON-TIME PERFORMANCE

To fill a key part of the supply chain our freight services need to be able to deliver consistently good on-time performance.

The problems we experienced with both the *Aratere* ferry and the DL locomotives have affected on-time performance.

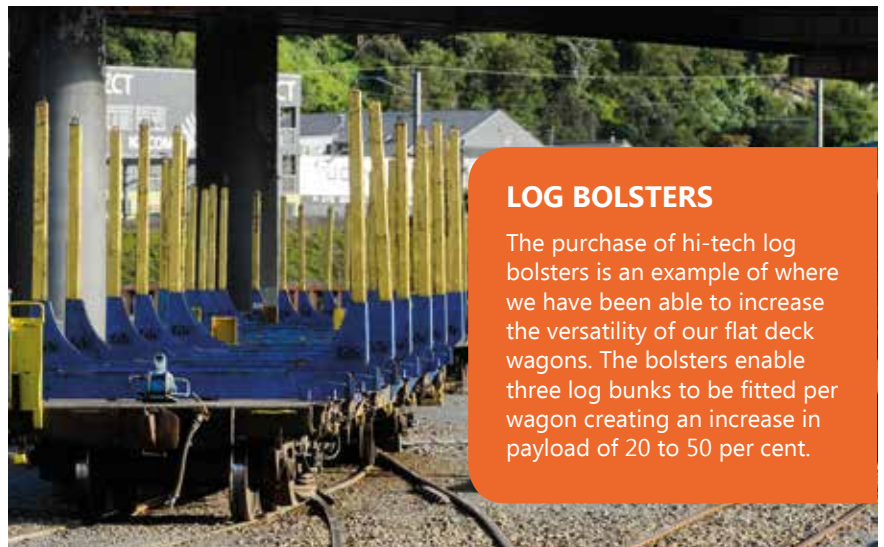
In order to improve performance we are focusing on getting our DL locomotives back into service, addressing specific mechanical issues with certain locomotive classes (e.g. the EF Class) and working with our local staff to identify ways of improving operations.

ON-TIME PERFORMANCE

	FY12	FY13	FY14
Freight trains	81%	89%	84%
Ships	75%	82%	67%

Freight - percentage of premium trains arriving within 30 minutes of scheduled arrival time

Ships - percentage of ships arriving within 15 minutes of scheduled arrival time



LOG BOLSTERS

The purchase of hi-tech log bolsters is an example of where we have been able to increase the versatility of our flat deck wagons. The bolsters enable three log bunks to be fitted per wagon creating an increase in payload of 20 to 50 per cent.

ASSET MANAGEMENT

Within our locomotive fleet alone we have 14 different classes of locomotive. We also have more than 60 different types of wagon. To support and maintain these assets is a significant task requiring a diverse range of equipment, skills and systems. Our inventory has risen to accommodate each type of engine, brake pad, light fitting and other parts. This carries a cost in both space and the cost of spares.

Our recent purchase of DL locomotives and new wagons has enabled a move

to a standardised train set on an increasing number of services. We will replace equipment as our finances allow and older assets are retired to achieve a more standardised asset base in time.

DEPOT STANDARDISATION

We are cleaning up and standardising our depots. Depots are being revamped with a consistent look and feel as well as rolling out standard procedures. This has had a noticeable effect on morale, productivity and is helping to create a more seamless business for our customers.



IMPROVING PRODUCTIVITY ON THE TRACKS

Our Infrastructure and Engineering Group has recognised there is an opportunity to improve the amount of productive time spent in the rail corridor. From working with our field staff we have identified some of the potential barriers. We aim to improve the use of protection time, reduce waiting for trains or travel to worksites, work planning and scheduling. By empowering the people in the field to come up with solutions we expect to see a significant improvement in productivity. This will be a longer-term project with quick wins implemented where possible.

Looking to the future

Part of taking a sustainable approach is to have a view of what the future might look like. In the next five to ten years we believe that we will see change in the following areas relating directly to our business:

VISIBLE FREIGHT

Investments in technology and the development of location data services will provide customers with real-time visibility of where their freight is. This information will also be used by KiwiRail to allocate our rolling stock for maximum usage.

STANDARD TRAINS, SHIPS AND DEPOTS

Our customers can expect to experience a more uniform and integrated business as the focus on creating One KiwiRail takes shape. Within ten years we expect to have uniform locomotive and wagon combinations, standardised ships as well as a consistent look and feel to our depots, workshops and terminals.

RESILIENT NETWORK

Our business, like other infrastructure operators, has been impacted by a number of storms in recent years. Projections are that these will increase in frequency. We are countering this through improving our track quality and focusing our investments to reduce rework. Two of the key areas we are addressing are drainage and coastal protection works. In some areas we know we will not be able to avoid disruption but we will design to ensure safe failure and rapid reinstatement.



PORT TRAFFIC

We expect our movement to and from ports to increase as New Zealand experiences both increasing freight volumes and more businesses recognise the value of including rail in their import/export supply chain. The importance of inland ports is also set to increase as ports recognise the benefits of using rail to quickly clear a ship while reducing congestion on local roads.

SAFETY LEADERS

Zero Harm will be a key way that we differentiate KiwiRail when dealing with our customers. Our employees will become safety leaders sharing the knowledge and skills to operate safely with our customers, suppliers and other stakeholders. We expect to see higher levels of engagement as safety related incidents decrease and productivity increases.



HIGH PRODUCTIVITY VEHICLES

We will need to remain competitive in the face of increasing numbers of high productivity vehicles (HPVs)⁹. With both roading infrastructure being upgraded and transport companies adding more of these vehicles to their fleets the efficiency advantage for rail will be diminished on some routes.

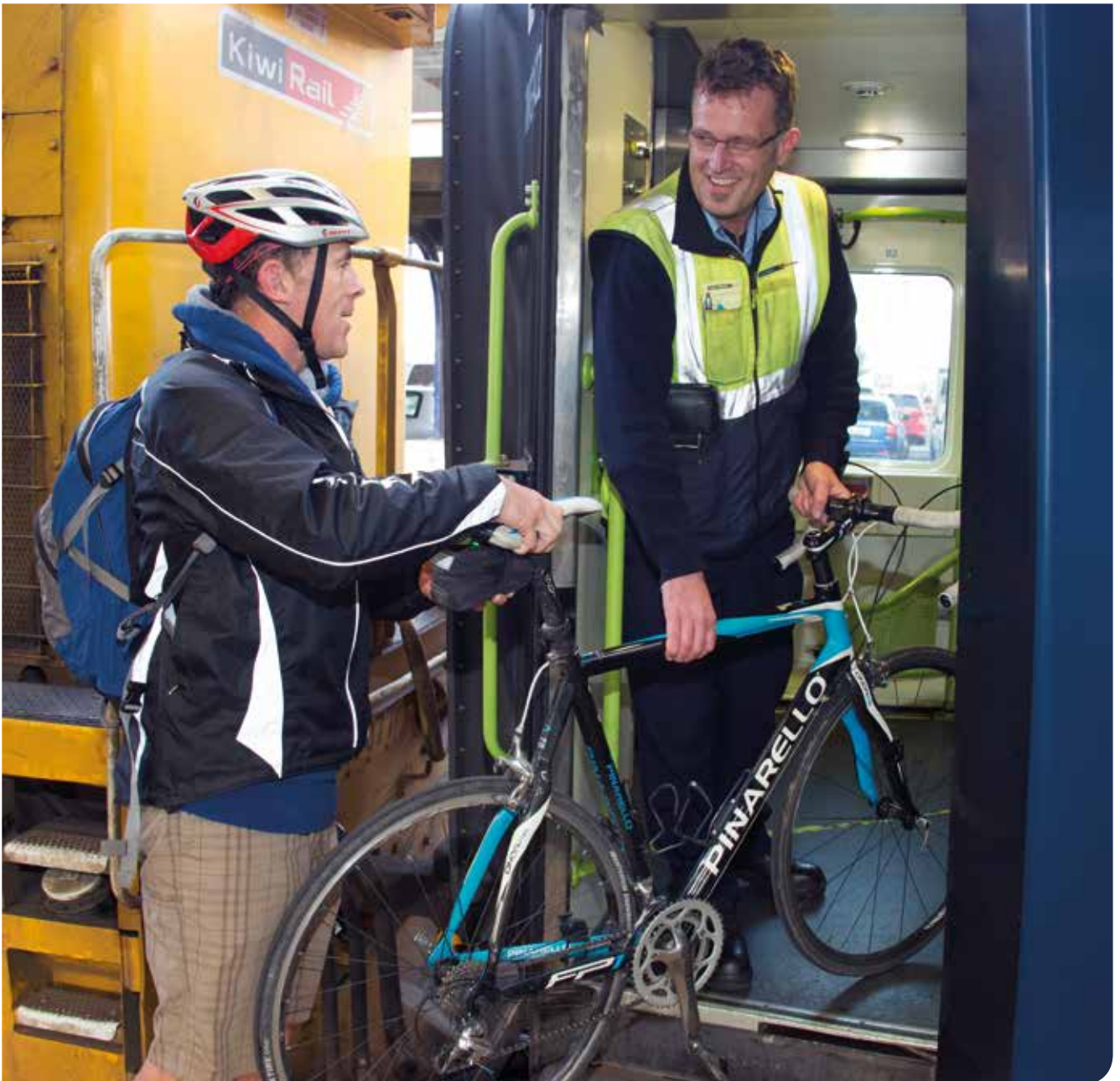
ROAD BRIDGING ON THE COOK STRAIT

Building a rail-enabled ferry or rail-enabling an existing ferry is prohibitively expensive. Therefore road-bridging over the Cook Strait will become a reality with phasing-in aligned with the replacement of the current fleet. We have already successfully proven that it can be done efficiently and now we will start planning to make it happen.

⁹ Trucks in excess of 40 tonnes

Sustainable Value Created

We recognise that being around for the long haul isn't going to be just about making money. We also need to continue to ensure we create value for the people that are connected to our business, the communities we pass through and the environment.



Below is a snapshot of some of the areas where we can measure both our positive and negative value. Over time we will refine this list to align with the key issues shown in our materiality matrix.

ECONOMIC	Measurement	FY12	FY13	FY14
Outputs				
Freight moved (rail)	NTK (m)	4,581	4,585	4,530
Commercial vehicles (ferry)	Lane metres (m)	1.2	1.2	1.4
Metro passengers	Passenger km (m)	11.3	11.4	11.7
Scenic journeys	Passenger km	362,135	312,902	314,479
Ferry passenger journeys	Number	755,398	748,724	642,164
Contribution				
Capital spend (excl Metro)	\$m	357.9	310	250.7
Spend in New Zealand	% of total spend	85	86	91
Wage and salary spend	\$m	280.6	273.5	280.9
SOCIAL				
Employee Safety				
Lost time injuries (LTI)	LTI frequency rate	7.57	12.76	13.62
Total recordable injuries (TRI)	TRI frequency rate	53.0	54.63	32.95
Public safety¹				
Total fatalities	Number	16	20	10
Total injuries	Number	120	154	98
Level crossing incidents	Number	254	254	295
Trespasser incidents	Number	285	341	408
Network safety				
SPADs ²	Per million train km	N/A	3.48	3.30
Employee Engagement				
Engagement index		67	72	73
Response rate	%	76	74	79
Community contribution				
Value of in-kind services ³	\$(000)	N/A	N/A	280
Community complaints	Number	N/A	N/A	378
ENVIRONMENTAL				
Energy Consumption				
Direct - Fossil Fuels	Tera Joules	3,763	3,929	3,730
Indirect - Electricity	Tera Joules	265	265	254
Energy from renewable sources	%	6.6%	6.3%	6.4%
Emissions				
Carbon intensity (Freight)	Gms of CO ₂ -e per NTK	32.51	32.49	31.13
Scope 1 (direct) emissions	Tonnes of CO ₂ -e	263,509	277,324	264,491
Scope 2 (in-direct) emissions	Tonnes of CO ₂ -e	12,602	12,591	12,034
Travel emissions	Tonnes of CO ₂ -e	1,140	1,151	1,485
Environmental performance				
Trackside fires ⁴	Number	43	82	68

¹ Source: Ministry of Transport Rail Safety Statistics. The increase in incidents is partly due to an improvement in reporting

² Excludes SPADs that occur within the Auckland metropolitan network where KiwiRail is not the operator.

³ For Interislander and Scenic services only.

⁴ Includes all trackside fires – third party and unknown causes.

Being our first report we would love to hear your thoughts or ideas for improvement.
Email us at sustainability@kiwirail.co.nz

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