



Investing in a Sustainable Future.







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OUR PURPOSE

Stronger Connections.

35 million

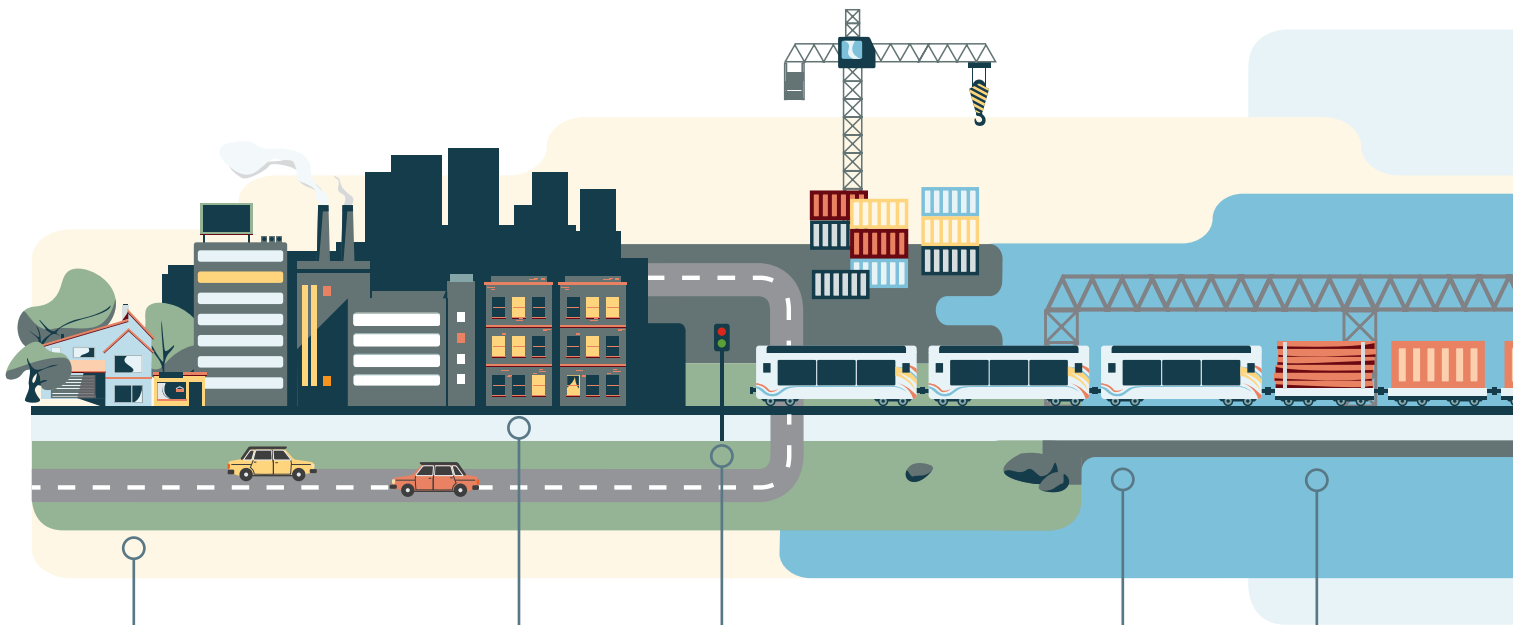
We help commuters make 35 million low-carbon journeys each year

One million

We carry more than one million tourist passengers each year

19 million

We move more than 19 million tonnes of freight each year



- Manage 17,800 hectares of land
- Own more than 1,350 buildings

- Over \$1 billion invested in renewal and upgrade of rail network, rolling stock and property over the last five years

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

- 4,756 wagons

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

Better New Zealand.

1.5 billion

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

16%

We carry around 16% of New Zealand's total freight task (tonnes-km)

26%

We transport 26% of New Zealand's exports



- 98 tunnels
- 1,325 bridges

- 253 locomotives
- 90% of all freight arrives on time

- 3,600 employees
- 74% union members
- 46 years - average employee age

- 3,700 km of track operated and maintained
- 5.7 million sleepers, of which 51% are concrete

- Three ships
- 825,000 passengers
- 3,700 sailings per year

- Reduce heavy vehicle impact by more than one million truck trips per year
- Every tonne of freight carried by rail is a 66% emissions saving over road

INTRODUCTION

Rail has a proud 156-year history of enabling growth for the country's cities and regions by building stronger connections for a better New Zealand.

With the Government's injection of \$1 billion, we are poised for the next stage of that story, ready to grow and transform the business having earned that right through the steps we have already taken to improve the efficiency of our business, including consistently meeting shareholder expectations.

The worldwide renaissance of rail and the New Zealand Government's commitment to transport mode neutrality is providing an opportunity to build on previous investment, securing the rail network for the wellbeing of future generations and ensuring KiwiRail plays its part as a critical and valued element in an integrated transport network.

We are working on a strategy to double the value rail delivers to New Zealand through investment in regional growth, burgeoning commuter services, increasing our tourism rail and ferry journeys and growing freight market share by developing into adjacent markets and improving the yield and profitability of the business.

Long-term, sustainable funding is required to realise this growth for the benefit of New Zealand. We are gearing up to deliver on a number of large projects which will mean increased costs in the short-term while we build a transformed organisation for long-term sustainable results.

KiwiRail has been at the heart of sustainable transportation in New Zealand for the past decade, providing a low carbon alternative for freight and passengers. The organisation has grown and adapted to meet the changing needs of its existing and new customers. It is now perfectly placed to help drive sustainable and inclusive growth for the country, and to help meet the nation's commitment to the Paris Accord and the transition to net zero carbon.

KiwiRail is ready to assist the Government's regional growth initiatives, and welcomes the chance to invest via the Provincial Growth Fund to build our capacity outside the main centres.

There is also a focus on continuing to grow commuter services by building on substantial investment in this area by earlier governments, improving urban networks and establishing new inter-regional services.

This is the first time KiwiRail has incorporated the Treasury's new Living Standards Framework into its Statement of Corporate Intent. As an organisation of 3,600 people in 50 towns and cities across the country, providing tourism, freight and commuter services to all New Zealanders, intergenerational wellbeing is at the heart of our decision making.

The four capitals – Natural; Social; Human and Financial/Physical – encapsulate the breadth of the work we do. From the \$1.5 billion in value that rail delivers to New Zealand through reduced congestion in our cities, improved environmental outcomes and road safety to the infrastructure we build and maintain and the communities we connect,

New Zealand's wellbeing is enhanced by its integrated rail and ferry network.

Our intent in this document is to highlight the strategic priorities which will drive our business forward, while providing sustainable and inclusive growth for all of New Zealand.

KiwiRail is registered as a State-Owned Enterprise (SOE) and operates within the policy and regulatory frameworks of the State-Owned Enterprises Act 1986 (the Act). This Statement of Corporate Intent (SCI) sets out the business' objectives and performance targets for the three years to 30 June 2022 and is submitted by KiwiRail pursuant to Section 14 of the Act.

NATURE AND SCOPE

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

We help commuters make more than 35 million low-carbon journeys each year, have enabled passenger growth of 20 per cent on Auckland over the two years to June 2018 and carry more than one million tourism passengers on our services including the Interislander ferries.

We stop at 24 towns and cities across New Zealand. We move more than 19 million tonnes of freight carrying around 16 per cent of New Zealand's total freight task and 26 per cent of New Zealand's exports.

However, the organisation faces challenges. Over the past two and a half years natural events – the Kaikoura earthquake, fires on the West Coast line and increasing weather events – have disrupted the services we offer customers, and added to the cost of doing business through increased safety, remediation, compliance and insurance costs.

We also continue to face the cost of a legacy of underinvestment in our bridges, tunnels, tracks and rolling stock outside the metropolitan commuter areas. Freight needs a similar "catch up" in investment to that which has already been delivered to commuter services.

The Government's investment of \$1 billion will put KiwiRail on an even footing with other parts of the transport system, helping us to replace ageing ferries and locomotives, and the country to build a modern integrated multimodal transport network fit for the future.

Looking ahead, the business is focused on providing a safe, efficient and reliable service for customers, a Zero Harm workplace for our people and the public, and driving sustainable economic growth for New Zealand. Our purpose of "Stronger Connections. Better New Zealand" has a plan for a bigger, bolder role for rail. It is aspirational for KiwiRail, and it is aspirational for New Zealand.

MARKET OUTLOOK AND ECONOMIC ASSUMPTIONS

As a commercially focused SOE serving the freight and tourism markets, the outlook for KiwiRail is closely linked with that of New Zealand and global economies.

New Zealand's economy continues to grow at a healthy pace and looks set to continue with Real GDP predicted to grow by 3% over the 2019/20 period¹, largely underpinned by factors such as population growth, government spending and increased trading partner activity. Beyond this period, conditions are expected to slow slightly with net export growth and net migration inflows set to reduce. The need for clean energy and its link to New Zealand's ability to decarbonise its economy continues to be a strong focus of attention for New Zealanders as highlighted in the 2019 Colmar Brunton poll², along with a reduction of plastics and the need for clean water.

Across the global context, economic signals remain positive for continued growth across most of New Zealand's trading partners. This is despite the underlying impacts of increases in trade protection across the world. In the medium term, challenges may await in the form of ageing populations and weaker productivity growth.

The importance of the role of rail to world economies is highlighted in the recent International Energy Agency's Report The Future of Rail which states "Rail is among the most energy efficient modes of transport for freight and passengers - while the rail sector carries 8% of the world's passengers

and 7% of global freight transport, it represents only 2% of total transport energy demand."

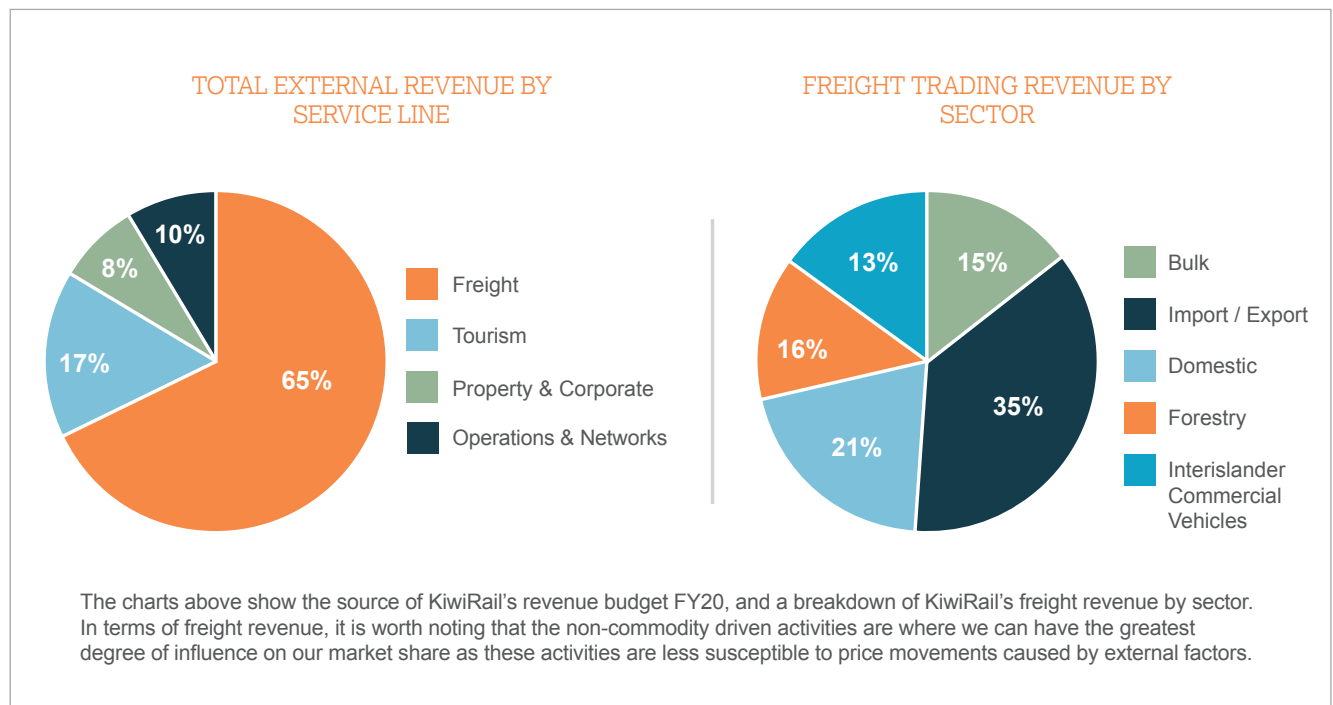
SECTOR OUTLOOK

The impact of trade disputes and the move to decarbonise economies both here and internationally on commodity production and trading create uncertainty but KiwiRail is prepared to respond to those changes.

When looking at the long-term view of the freight sector, freight tonnage across all commodity types is projected to increase by 55%, from 237 million tonnes in 2012/13 to 366 million tonnes in 2042/43³. When split out across regional New Zealand, nearly all regions are expected to increase levels of freight tonnage other than the West Coast – largely due to reductions in coal movements. In terms of freight moving throughout New Zealand's busiest freight corridor – Auckland/Waikato/Bay of Plenty, "The Golden Triangle" – this is projected to increase its share of all movements to 45% by 2043⁴. With this in mind, KiwiRail is extremely well placed to play an even greater role within the freight sector, particularly as we operate nationwide.

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

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



- <https://treasury.govt.nz/sites/default/files/2018-12/hyefu18.pdf>
- <http://www.colmarbrunton.co.nz/better-futures-climate-change-concern-rising-but-plastics-top-of-mind-for-kiwis/>
- <https://www.transport.govt.nz/assets/Uploads/Research/Documents/b41c266676/GOTO-Future-State-A4.pdf>
- <https://www.transport.govt.nz/assets/Uploads/Research/Documents/b41c266676/GOTO-Future-State-A4.pdf>

- Global coal consumption increased across 2018 with Indian and Chinese consumption levels leading the way, after three years of decline⁵.
- Forestry continues progress towards peak “Wall of Wood” which is expected to be reached in the next 15-20 years. KiwiRail continues to play a valued role in keeping trucks off the road in many parts of regional New Zealand.
- IMEX remains stable in the short to medium term with supply chains slowly adapting to larger container ships and fewer port calls. KiwiRail ensures high levels of connectivity within the IMEX sector across the country.
- Tourism has seen steady growth in international passenger movements to New Zealand which is now softening and is expected to settle around 2.5% p.a., with strong domestic demand underpinning growth in certain sectors. Further investment in tourism infrastructure will enable the country to meet future demand.

KiwiRail’s large investment programme currently underway for new rolling stock should see even greater levels of service and reliability which will improve customer offerings in the short to medium term. Transitioning our Interislander ferry fleet to two newer, larger, rail-enabled ferries is a priority for KiwiRail to provide a strategic response to growing passenger and freight markets across the Cook Strait.

STRATEGIC PRIORITIES

KiwiRail has set a long-term strategy for growth to double the value rail delivers to New Zealand; to grow our revenue through the optimisation of our assets, network and supply-chain; to become New Zealand’s leading safety and health organisation; to be an employer of choice and to deliver increasing environmental benefits as we aim for net zero carbon.

These are ambitious goals both for New Zealand and for the 3,600 people in 50 towns and cities who make up the KiwiRail organisation. To position ourselves to deliver on them KiwiRail has set three-year targets to ensure we have fully integrated our operational teams to deliver maximum value for 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 and in connecting communities.

In 2016 EY calculated that rail delivers \$1.5 billion in often unseen benefits to New Zealand each year through easing congestion in our cities, improving road safety, reduced

road maintenance costs and carbon emissions savings. Every tonne of freight carried by rail has 66% fewer carbon emissions than heavy road freight. A major focus of our next three years is improving further our environmental footprint to help New Zealand achieve its carbon reduction goals.

What follows are KiwiRail’s strategic priorities for the three years to 2022 to build the foundations for the long-term future. We have grouped them under the four capitals of the Living Standards Framework, focusing our efforts on delivering intergenerational wellbeing for New Zealand.

HUMAN CAPITAL

ZERO HARM

After a sustained period of reducing injuries and improved safety statistics in our workplaces, KiwiRail’s safety performance has plateaued, requiring a further step change in the actions we take each day to keep our people and the public safe.

We have an ambition 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.

Every year KiwiRail delivers targeted initiatives to improve the safety of our employees and those using our trains and ferries. Central to the delivery of these initiatives are policies and procedures to provide clear leadership expectations, targets and performance monitoring. This resulted in a 33% increase in Safe Work Conversations in the first half of FY19, a 56% reduction in terminal collisions, a 20% reduction in terminal derailments and since FY16 a 53% reduction in signals passed at danger (SPAD).

In November, our teams across the country completed a safety culture survey which highlighted that 94% believe safety is important to the organisation. The Safety Culture survey delves deeply into workers’ safety attitudes to capture perceptions about safety and opportunities for improvements. This provides valuable information to ensure programme design is effective in making the required behavioural change which drives better safety practice. This is a critical step in a combined approach of continually improving our safety system and processes and drives a belief culture which will enable the next step-change in our safety outcomes.

A strong belief culture in KiwiRail makes safety personal for everyone, including all teams within KiwiRail who contribute to a safer and healthier workplace. When it is personal people make decisions and take steps for the right reasons, not because it is a compliance requirement. This process is particularly effective for frontline teams with results driven by the people at the point of risk.

The next initiative in the development of our safety culture is a two-day workshop which will be rolled out over the next year focusing on the personalisation of safety.

We continue to revitalise our frontline local Health and Safety Action Teams, empowering them to bring issues and solutions to the business from where safety improvements have the greatest effect. We are refreshing our Safety, Health and Environment management system with a new framework

5. <https://www.bp.com/en/global/corporate/energy-economics/statistical-review-of-world-energy.html>

that provides consistent ways of managing Zero Harm. This system is based on international standards and best practice which clarify who is accountable and responsible and grows our technical safety capability. Our seven cross-function Critical Risk Networks (tunnels, signals passed at danger, track occupancy, level crossings, contractors, people-plant separation, motor vehicles) bring an organisational focus to those areas where safety is most critical, identifying and implementing risk controls.

Mental health and fatigue are two new areas of focus for KiwiRail. We have been working with the Rail and Maritime Union and academics at Massey University's Sleep Centre on how to implement best-practice fatigue management to keep our people and the public safe. A new mental health strategy is being implemented across the business to ensure we provide a safe environment with a sense of purpose and community, which is important for mental wellbeing. Mental health initiatives also deliver business outcomes such as improved worker engagement, increased productivity, reduced staff turnover, fewer operational incidents, and reduced costs associated with injury, rehabilitation and time lost.

GROWING OUR PEOPLE

Authentic engagement from the frontline to the Board is critical to the success of KiwiRail's business and the success of our customers. Our High Performance, High Engagement (HPHE) programme of work with our union partners is transforming the way we work, bringing frontline solutions to business challenges while lifting productivity, improving safety and delivering increased performance.

In FY19, KiwiRail's staff engagement rating reached its highest level at +24, up from -21 three years ago and above industry standard. We have plans to improve this further, living our values of Care and Protect; Straight and True; One Winning Team and Great Customer Experiences to deliver our purpose: Stronger Connections. Better New Zealand.

Like many heavy infrastructure industries, KiwiRail has a smaller female workforce of just 16%, though 30% of our senior leaders are women. We have a Diversity Council driving initiatives for more diverse voices to be heard and we are setting targets to lift our gender and youth diversity over time.

Over the next eight years, 1,000 of KiwiRail's current people will reach retirement age. We are working hard to recruit now to deliver the skills and talent required for the growth ahead.

To this end we have committed to growing our cadet, apprentice and graduate programmes, developing rail talent, growing jobs in the regions and ensuring we have the skills needed for the future. Last year our Graduate programme attracted more than 600 applicants for just six places.

KiwiRail's Te Kupenga Mahi Maori network is active throughout the business and our Toi Toi Maori Leaders programme which teaches leadership in a Te Ao Maori environment is changing the DNA of the organisation. We are initiating other youth training programmes with iwi in regions such as Northland and Napier/Wairoa.

In conjunction with the Ministry of Social Development, we have delivered our first Future You employment training course with a second intake underway. Rail training schools for those exiting corrections programmes are also being explored.

KiwiRail remains committed to the development of every worker in our business. Technology will change what we do and training our people for the future is critical to retain skills and knowledge while adapting to disruption as it occurs. We are establishing an Innovation Lab within the business to take the smartest ideas from our most practical people from all levels of the organisation, focusing on the business challenges of the future.



FINANCIAL/PHYSICAL CAPITAL

As a State-Owned Enterprise, KiwiRail is a commercial entity committed to increasing its revenue through strong, mutually-beneficial relationships with our customers, optimisation of our rail and ferry networks and as one of New Zealand's largest land owners.

Government investment is required to enable the safe and efficient running of the below rail network which delivers \$1.5 billion in value to New Zealand each year through reduced carbon emissions, congestion easing, road maintenance cost savings and improved road safety for all users.

KiwiRail has met its shareholder expectations for the third year running and is on track to meet its full-year operating surplus of \$55 million to \$75 million in FY19. Over the past three years, more than \$52 million in efficiency and productivity savings have been delivered.

Significant revenue gains have been made across all markets and particularly forestry, as the Wall of Wood comes onstream, the domestic market as the Main North Line reopened post the Kaikoura earthquake, tourism and our property business.

Increasing compliance and regulation costs, the market after-effects of the Kaikoura earthquake and increased insurance premiums remain as challenges for the business in the short-term. KiwiRail has a long-term strategy to grow revenue while reducing costs however long-term sustainable funding is required to deliver benefits to New Zealand through intergenerational investments in our assets. This investment in long-term intergenerational assets as well as addressing the legacy of underinvestment will mean increased costs in the short-term for long-term sustainable results. Before the financial benefits of this investment are fully realised in improved operating results, productivity and margin initiatives

will be a priority to ensure KiwiRail continues to meet shareholder expectations.

Those assets will deliver service capability to New Zealand's largest GDP contributors from the export sector. There is increasing reliance from the primary sector on rail and a desire for more modal shift to reduce carbon emissions and improve road safety.

Growing our operational capacity is key to New Zealand's future success.

ROLLING STOCK AND FERRY REPLACEMENT STRATEGY

Rail's ability to deliver for those sectors has been undermined in recent years by a legacy of underinvestment in our rolling stock, network, bridges and tunnels under successive governments. This will take time and funding to rectify, and requires a multi-year programme of replacement followed by provision of assets for growth to achieve the outcomes needed for New Zealand.

We have plans for a major locomotive, wagon and shunt replacement programme coupled with the modernisation of maintenance facilities over the next decade for those assets at their end of life. This will assist in improved efficiencies and carbon reduction through modern, smart assets with the latest environmental technology.

KiwiRail also has plans to replace its ageing Interislander ferry fleet with two new rail-enabled sister ships to be in service from 2024. The ships will provide greater capacity for both freight and passengers and deliver on-board services that will driver customer satisfaction and market share.

Design and procurement work is underway with financing and funding options being explored.



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

FUTURE OF RAIL REVIEW

Over the past 12 months KiwiRail has worked closely with the Ministry of Transport, Treasury and NZTA on the Future of Rail Review which is advising the Government on options for a longer term sustainable planning and funding model for rail that acknowledges the wider economic benefits that rail provides.

The review is welcomed by KiwiRail as it will set a long-term path towards sustainable funding and promote the Government's mode-neutral approach to an integrated transport plan.

The Government's support for the benefits rail brings to cities, regions, businesses and communities has delivered new opportunities through the Provincial Growth Fund which is allowing KiwiRail to invest further in the regions, and through the National Land Transport Fund for transitional rail projects such as the Hamilton to Auckland commuter service.

The outcomes of the review will be reported back to the Government this year.

SOCIAL CAPITAL

ENGAGING OUR CUSTOMERS

Ensuring the success of our customers is key to KiwiRail's success. In FY18 we undertook a comprehensive project to understand our customers' future needs and the needs of future customers. Enabling Customer Success is a key plank in our growth strategy with a roadmap of initiatives underway to help us do business better.

In FY18 we integrated our operational teams to put our customers at the heart of our work delivering safe, efficient and reliable services. That integration will continue as we create more cross-functional teams centred around our freight, tourism and property businesses, delivering a collective focus on the mutually beneficial partnerships that will ensure long-term success.

We are growing our customer-centricity across all our teams, listening more and planning for future trends as supply chains evolve. We are getting closer to our customers through active use of our land assets and growing services up and down the many different supply chains we serve.

DIGITAL TRANSFORMATION

Key to our customer success is a digital transformation of our processes, customer connections and information delivery. Over the next three years we will invest in mobility systems, smart assets and data analytics providing better ways to connect with our customers from booking to billing.

KiwiRail's processes must automate to provide the transparency, data and real-time information our customers - and their customers - demand. We have a three-year programme of design-led digital initiatives using contemporary delivery approaches which will help us integrate our business with theirs and deliver data-driven decision making for the benefit of both. New technologies

such as block chain, which is disrupting supply chains and industries, will also be explored.

DELIVERING REGIONAL GROWTH

KiwiRail has a unique role to play in growing regional economies through improving productivity and supply chain efficiency, creating jobs, delivering tourists to towns and cities and taking trucks off vulnerable roads improving road safety.

In FY18 KiwiRail embarked on a number of regional investments, aided by the Government's Provincial Growth Fund. These include increased tourism capacity in the South Island and new premium tourism services; a future-focused intermodal freight hub for the Central North Island in Palmerston North; the reopening of the Napier to Wairoa rail line for forestry trains; an upgrade of the Whanganui line and a number of feasibility studies into additional services around the country.

The growth of intermodal regional hubs is a focus area for KiwiRail as we are committed to being an efficient conduit for freight movements around the country.

KiwiRail will continue to explore further regional opportunities, in partnership with iwi and other stakeholders.

TOURISM

KiwiRail is one of New Zealand's largest tourism operators, carrying more than a million passengers each year on its Great Journeys of New Zealand rail and ferry services.

In recent years, we have experienced double digit growth but the growth rate is now slowing and Tourism New Zealand is forecasting visitor arrivals to grow 2.5% for this coming year.

KiwiRail has a strategy to continue its market share growth through expanding its offering into packages and experiences, extending the current nine-month Coastal Pacific service to a year-round experience, increasing capacity and delivering its new premium service offering on the TranzAlpine and Coastal Pacific services in 2022.

We are exploring the potential of new service destinations in regions such as the West Coast, Bay of Plenty and Northland.

KiwiRail is increasing its international marketing to attract more high-value tourists and will deliver a new tourism reservation system for our customers to be in use by 2021.

INCREASED COMMUTER DEMAND

KiwiRail enables 35 million low-carbon commuter journeys on our network each year, with double digit growth being experienced in the Auckland metro area.

We have two regional commuter services – the Capital Connection between Palmerston North and Wellington and the upcoming five-year trial of a Hamilton to Auckland commuter service due to begin in 2020.

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 access to transport is easily accessible for all.

KiwiRail is working closely with Auckland Transport on the new City Rail Link 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.

COMMUNITY

KiwiRail is woven into New Zealand communities through our 3,600 people in 50 towns and cities. As one of New Zealand's largest property owners, with 17,800 hectares of land and more than 1,350 buildings, we aim to be a good neighbour to those communities in which we operate.

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

We are growing 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 around our rail network. That has resulted in 23 cycleways next to the network with more than 20 others underway.

IWI

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

Through our Maori network, Te Kupenga Mahi, we have representatives around the country working together with iwi and hapu to ensure our relationships are respectful and robust.

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

With a significant Maori workforce, KiwiRail is bringing a Te Ao Maori perspective to the organisation. We are building a new generation of leaders through our Toi Toi Maori Leadership programme and run weekly waiata gatherings for staff of all ethnicities.

KiwiRail is looking to partner with iwi and other stakeholders on new initiatives in our property and supply chain portfolios. This partnership focus is a key plank in our growth strategy.

GOVERNANCE

With a large transformation programme including significant capital investment ahead, strong governance is required to ensure success. A programme governance structure has

been implemented to ensure a layered approach is achieved. External oversight will also be required to ensure that this follows best practice models.

In addition, due to the scale of these projects, governance groups have been formed for the key programs such as rolling stock and ferry replacements and infrastructure upgrades. Two Board members have been appointed to each group ensuring rigorous programme management and improved transparency for the shareholder.

KiwiRail has a strong, strategic Board with considerable experience across leadership, supply chains, shipping, regulation, State Owned Enterprises and safety.

NATURAL CAPITAL

Sustainability is central to our purpose of delivering stronger connections for a better New Zealand. KiwiRail plays a critical role in New Zealand's transport system and in the health of the economy, our communities and the natural environment.

We value intergenerational wellbeing in our social, environmental and economic decision-making and we are guardians of the rail corridor for future generations.

ENVIRONMENT

Rail has a natural advantage as an energy efficient and low emissions mode of transport, with 66% fewer emissions than heavy road freight transport. KiwiRail plays a critical role in New Zealand's transport system and has much to offer New Zealand in the transition to a low emissions future.

We have carbon emissions reduction targets over the short and long term, which seek to reduce the carbon intensity of our activities and support emission reductions across the New Zealand transport sector. Since 2012 we have reduced our carbon intensity in rail freight by 15% and through our energy and emissions reduction programmes we have reduced fuel usage on the Interislander ferries (5% per sailing since 2016) and locomotives (6% reduced fuel burn).

We are developing a carbon strategy with initiatives underway as we continue our procurement programmes for new ferries and rolling stock that will allow us to take advantage of newer environmental technology and future fuels.

KiwiRail recognises its role in supporting New Zealand as the country progresses the global sustainable development agenda. To further support the agenda, KiwiRail has identified a subset of the United Nations' Sustainable Development Goals (SDGs) to integrate in its organisational strategy and work programme over the next three years. SDGs 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 #8 Decent Work & Economic Growth, #9 Industry, Innovation & Infrastructure, and #13 Climate Action.

We work closely with our customers on their environmental goals also. Our Steel Wheels data illustrates their carbon reduction achieved through use of rail. Steel Wheels shows that in the year to June 2018, KiwiRail took 1.1 million truck trips off the road avoiding 180,212 tonnes of CO₂ emissions.

LAND GUARDIANSHIP

KiwiRail is committed to guardianship of the land, water and air in which we operate. This responsibility acknowledges the Maori concept of Kaitiakitanga and we are mindful that our stewardship of the rail corridor is for future generations.

We have a long-term strategy which focuses on protecting current and future rail corridors and improving the quality of our large property portfolio, defining long term land requirements and securing it for the good of New Zealand.

We take our environmental obligations seriously and have a committed team of environmental experts ensuring we meet all relevant duties and obligations. We invest in growing and

maintaining our land for the benefit of our customers, our people and the environment as our long-term strategy seeks to improve productivity and standardise our yards, depots and buildings.

We have a waste minimisation programme underway at our sites across the country and we are identifying real opportunities to reduce waste to landfill, supporting the evolution of a circular economy.

KiwiRail is partnering with iwi and other stakeholders on new opportunities for our land. We are an enabler of the growing number of intermodal freight hubs in New Zealand, ensuring an integrated transport system and an efficient supply chain for business.



HOW KIWIRAIL CREATES VALUE



Business Activities

Operate Safe, Reliable & Efficient Services

Grow Rail Freight Share

Retain & Grow Cook Strait Market Share

Grow as a Leader in Tourism

Connect People with Housing & Employment

Inputs



Financial

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



Skills & Know-how

Our people have specialist rail and marine knowledge, and more than 150-year history.



People

Our 3,600 people across 50 cities bring the skills, know-how, pride and passion to KiwiRail.



Relationships

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



Assets

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



Environment

We operate throughout the country including cities, farmland, national parks, and the Cook Strait, and we have several advantages as an energy efficient mode of transport.

Our Purpose

Stronger Connections.
Better New Zealand.

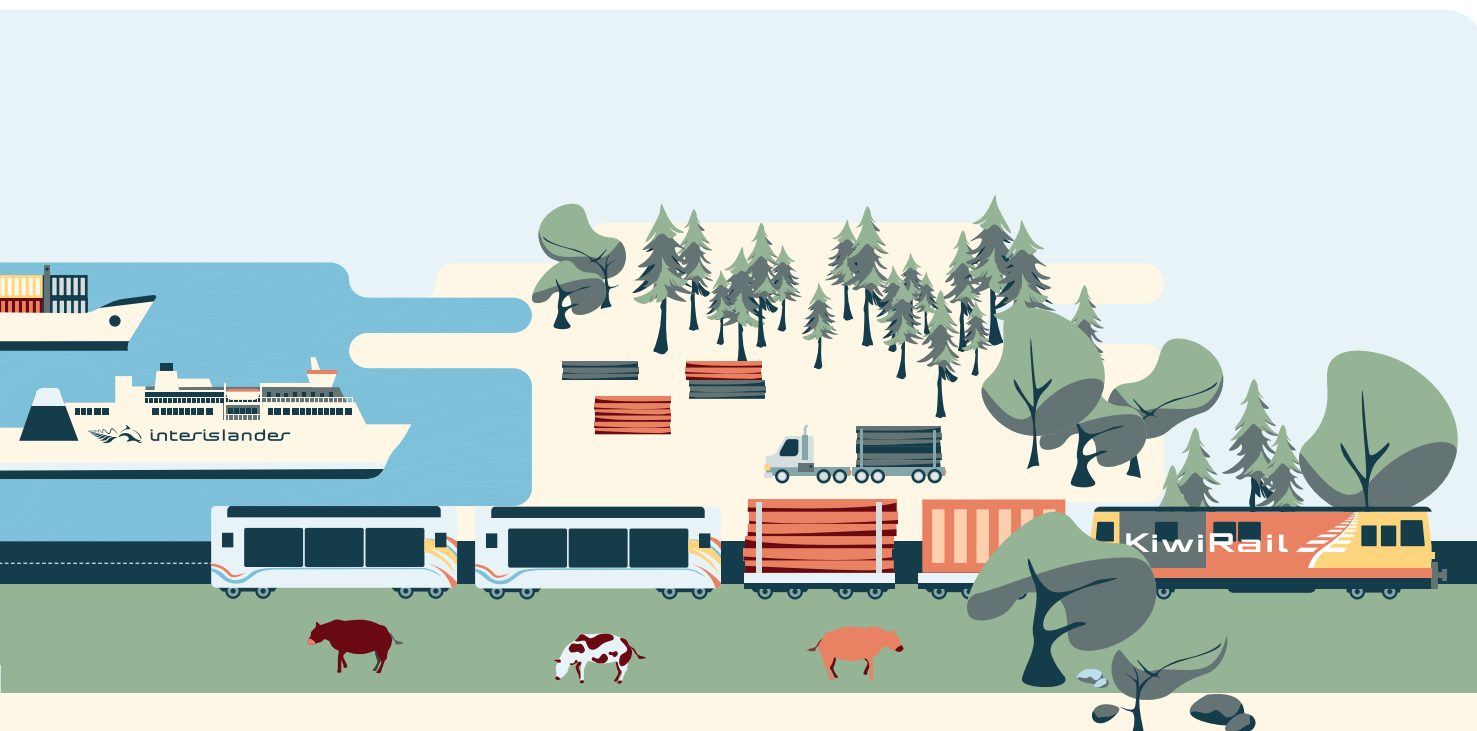
Our Values

Care & Protect

One Winning Team

Straight & True

Great Customer Experiences



Deliver Sustainable Platforms Connecting Our Network & Assets

Leverage the Value of Our Property

Build Our Sustainable Workforce of the Future

Collaborate through Alliances & Partnerships

Grow as a Leader in Sustainability

Outcomes

Financial

The economic value of rail to New Zealand totals \$1.5 billion each year; we are working with the Government to implement \$1 billion worth of projects across maintenance and growth.

Skills & Know-how

We utilise our expert knowledge and industry specific technology to meet the challenges of New Zealand's unique rail and marine environments.

People

Our culture has transformed in recent years, as our frontline-led High Performance, High Engagement programme engages our people, and we work towards being New Zealand's leading safety and health organisation.

Relationships

We are working towards being New Zealand's most trusted company and sustainable brand, as we move more than 19 million tonnes of freight each year, help commuters make more than 35 million journeys and carry more than one million tourists.

Assets

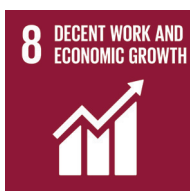
We continue to invest in our assets to correct a legacy of underinvestment in our bridges, tunnels, tracks and rolling stock.

Environment

Every tonne of freight carried by rail is a 66% emissions saving over road, and we are working towards being net zero carbon by 2050.

Sustainable Development Goals

We recognise the role that the transport sector can play in advancing the Sustainable Development Goals, and will continue to support the delivery of these goals in line with our organisational strategy and business activities.





interislander
NGĀ WAKA NEW ZEALAND'S FERRIES

CHALLENGER
WAIKAKI



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ASPIRATIONS AND OBJECTIVES

This section outlines KiwiRail's aspirations and targets for the three years to 2022. We have grouped them under the four capitals of the Living Standards Framework, to deliver enduring, sustainable benefits for New Zealand.

The aspirations and targets link directly into KiwiRail's long-term strategy. Our 2020-2022 focus is about investing for

a sustainable future and working with the Government to implement the mechanisms to achieve this.

With appropriate mechanisms in place, KiwiRail will be well positioned to drive growth in cities and regions, contribute to a low emissions economy and support sustainable and inclusive growth for a better New Zealand.

HUMAN CAPITAL

ASPIRATION:

- Be recognised as a 'Top 5' Employer of Choice in New Zealand by 2030
- Best in class staff engagement measures
- Build a sustainable workforce for the future
- Be the leading Zero Harm organisation in New Zealand in practice and performance
- Improve Zero Harm performance to Australasian best-practice levels within the transport sector
- Provide consistent risk based Health and Safety standards
- Grow through agility, initiative & collaboration

OUR FY20 - FY22 FOCUS:

- Attract, develop and retain talent given KiwiRail's ageing workforce
- Transition to a more diverse and inclusive workforce
- Grow our apprenticeship and youth training programmes
- Build on risk-based systems, SHE framework and safety culture to deliver a step change for Zero Harm performance
- Drive targeted initiatives to support mental health and fatigue management
- Align with unions on strategic priorities to engage workers and support productivity and efficiency (HPHE)
- Collaborate through enhanced alliances & partnerships

	2019	2020	2021	2022
	Forecast	Plan	Plan	Plan
Employee Net Promoter Score	+24	+24	+25	+25
Total Recordable Injuries	216	173	138	111
SPAD As	12	9	7	5

FINANCIAL/PHYSICAL CAPITAL

ASPIRATION:

- Secure a sustainable planning and funding framework for the rail network
- Deliver commercial above rail operations
- Double the value of rail to New Zealand
- Improve operating costs as a percentage of revenue to less than 85%
- Deliver with smart assets and connected networks

OUR FY20 - FY22 FOCUS:

- Long-term funding mechanism and sustainable operating model in place
- Improve operating costs as a percentage of revenue to less than 85%
- Increase digital platforms and capability
- Deliver strategic asset replacement programme (rolling stock/mechanical, network, ferries)
- Maximise capital efficiency

	2019	2020	2021	2022
	Forecast	Plan	Plan	Plan
Operating surplus (\$m) - pre lease accounting adjustment	57	61-71	75-95	76-110
Accounting adjustment for leases (\$m)	-	30	23	23
Operating surplus (\$m) - reported	57	91-101	97-117	99-133
Operating costs as a percentage of revenue (%) - pre lease accounting adjustment	92	90-91	87-89	86-89
Operating costs as a percentage of revenue (%) - reported	92	85-87	84-86	83-86
Capital expenditure - net of grants (\$m)	275	542	865	761
Capital expenditure - Main North Line (\$m)	85	120	-	-
Reliability – locomotive MDBF (000 kms)	43	45	47	50
Reliability – ships services to advertised sailings (%)	99	99	99	99
New sleepers laid (000)	106	122	138	151

SOCIAL CAPITAL

ASPIRATION:

- Grow our business to \$800m revenue per annum by 2030
- Enable customer success and grow adjacent markets
- Support step change in rail commuter journeys
- Deliver sustainable and inclusive growth and enhanced tourism offerings in the regions
- Align Shareholder and the New Zealand public on KiwiRail's purpose and long term plan
- Deliver efficient, reliable and integrated rail operations for all New Zealand

OUR FY20 - FY22 FOCUS:

- Invest in network, facilities and rolling stock to enable safe, reliable and efficient services
- Grow proportion of New Zealand exports carried on rail
- Drive regional growth by delivering on Provincial Growth Funded investment
- Grow as a leader in Tourism and deliver enhanced tourism offering (Coastal Pacific and Tranz Alpine)
- Commuter rail renewal and upgrade programme in Auckland and Wellington, and new Hamilton to Auckland service
- NZ Rail Plan and Rail Network Investment Plan completed
- Partner with iwi and other stakeholders on new initiatives in our property and supply chain portfolios

	2019	2020	2021	2022
	Forecast	Plan	Plan	Plan
Revenue (\$m)	675	684	683-715	706-758
New Zealand exports carried on rail (%)	26	26	27	27
On Time Performance - Freight Premier (%)	85	88	90	90
On Time Performance - Interislander (%)	94	95	95	95
Tourist passengers carried (m)	1.1	1.1	1.1	1.2
Commuter journeys enabled (m)	35	36	37	39

NATURAL CAPITAL

ASPIRATION:

- Ensure KiwiRail is a sustainability leader
- Be net zero carbon by 2050 and support achievement of New Zealand's zero carbon goals
- Leverage partnerships to identify and realise opportunities to improve the natural environment
- Step change in environmental management

OUR FY20 - FY22 FOCUS:

- Meet EECA's 73.5 gigawatt hours (GWh) energy saving target by 2020
- Achieve a 30% reduction in carbon emissions by 2030 through extending our pipeline of low carbon projects
- Complete a waste audit across key areas of the business to reduce waste
- Investigate and trial low/no carbon fuel types

	2019	2020	2021	2022
	Forecast	Plan	Plan	Plan
GHG emissions per Net Tonne Kilometres (gms)	27.31	26.81	26.31	25.80
Truck avoidance (m)	1.2	1.3	1.4	1.4

REQUIRED INFORMATION

	2019	2020	2021	2022
	Forecast	Plan	Plan	Plan
Shareholder return measures				
Total shareholder return	n/a	n/a	n/a	n/a
Dividend yield	Nil	Nil	Nil	Nil
Dividend pay-out	Nil	Nil	Nil	Nil
Return on average equity (%)	(29)	(20)	(14)	(12)

Profitability/efficiency measures				
Return on average capital employed (%)	(23)	(15)	(11)	(10)
Operating margin (%)	8	13-15	14-16	14-17

Leverage/solvency measures				
Shareholder's funds to total assets (%) (closing equity/ total assets)	65	83	85	86
Gearing ratio (net) (%) (net debt/closing equity)	19	14	9	8
Interest cover (operating surplus/net finance costs)	4.6	6.4	6.9	7.0
Solvency (current assets/current liabilities)	0.76	1.29	0.71	0.84

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

ACCOUNTING POLICIES

KiwiRail's detailed accounting policies are included in the latest annual Integrated Report and can be found here: <http://www.kiwirail.co.nz/media/annual-reports/>

DIVIDEND POLICY

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

INFORMATION TO BE PROVIDED TO SHAREHOLDING MINISTERS

KiwiRail will provide to Shareholding Ministers:

- An Annual Report and Half Yearly Report in accordance with sections 15 and 16 of the State-Owned Enterprises Act 1986. These will include a statement of financial performance, a statement of financial position, a statement of cash flows and such details as are necessary to permit an informed assessment of the Company's performance
- Continuous Disclosure reporting as required by Treasury's Commercial Operations Team
- Regular reporting to Treasury's Commercial Operations Team for performance monitoring during the Strategic Plan investment period
- Other information requested by Ministers in accordance with section 18 of the State-Owned Enterprises Act 1986

SIGNIFICANCE

KiwiRail will consult with its Shareholding Ministers on matters that would have a material effect on the scale, scope, financial return or risk the activities of KiwiRail, including:

- Any substantial expansion of activities of those described in this statement
- Any substantial capital (or equity) investment, and
- Any other significant transactions.

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.

COMPENSATION FROM THE CROWN

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

COMMERCIAL VALUATION OF THE CROWN'S INVESTMENT

The Board have used the method of discounted cash flows (DCF) to estimate the value of the KiwiRail Group as at 30 June 2019.

There has been a decrease in the commercial value related to operating free cash flows of \$917 million. This reflects an increase in capital investment over the period.

Based on the current earnings projections, it is not expected that the Group will be tax paying in the projected earnings period. The present value of tax payable on ungeared earnings is, therefore, zero.

The basis for the commercial valuation has remained consistent with previous valuations. The Future of Rail Review is continuing, including consideration of a new planning and funding framework and a longer term investment programme for rail. Longer term models will be updated to reflect the full future growth strategy and Future of Rail planning and funding models when complete. At the time of preparing the commercial valuation this work was still in progress.

\$m	30 June 2018	30 June 2019
Present Value of Pre-Tax Free Cash Flows	(1,589)	(2,506)
Less Present Value of Tax Payable on Ungeared Earnings	0	0
DCF Enterprise Value	(1,589)	(2,506)
Less Net Debt	(208)	(245)
DCF Equity Value	(1,797)	(2,751)

The key points about the way 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 6 aligned to KiwiRail's capital requirements, and years 7 to 20 consistent with the Commercial Review undertaken in 2014
- A terminal value of zero has been assessed
- A risk-free rate of 2.75%* and discount rate of 7% has 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

*Risk free rate used is consistent with PwC approach to take a series of longer-term forward one year yields

THE VALUE OF RAIL TO AOTEAROA

It is important to note that the commercial valuation indicated above does not reflect the valuable externalities which rail provides. These externalities were considered in EY's 2016 Value of Rail report. The approach taken in assessing the value of rail was to model the effects on the road network if there was no rail network.

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

- Reduced congestion
- Reduced greenhouse gas emissions
- Improved safety outcomes – reduced costs of safety incidents like death and injuries
- Reduced road maintenance and upgrades

The value excludes further qualitative benefits from rail, such as connectivity, land use and resilience benefits which would significantly increase the value of rail.

On this analysis the value of rail is highly likely to far exceed the annual direct government investment in the existing network.

APPENDIX 1: PERFORMANCE MEASURE DEFINITIONS

DEFINITIONS OF SOE PERFORMANCE MEASURES

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

GLOSSARY

EBIT	Earnings before interest and tax
GHG	Greenhouse Gas
MDBF	Mean distance between failure
Net Promoter Score	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
NPAT	Net profit after tax
Operating Surplus	Net surplus (revenue minus expenditure) excluding significant items before foreign exchange, interest, taxation, depreciation, amortisation, impairment, grant income and fair value adjustments.
SPAD A	Signal Passed At Danger - A category "A" SPAD is a SPAD where a stop signal indication (and any associated preceding cautionary indications) was displayed correctly, in sufficient time for the train to be stopped safely at the signal
TRI	Total Recordable Injury. A recordable injury is defined as a lost-time injury, any injury requiring medical treatment, or any instance where an injury prevents a return to work on normal duties for a period of one day/shift or more