



BUILDING RAIL'S FUTURE

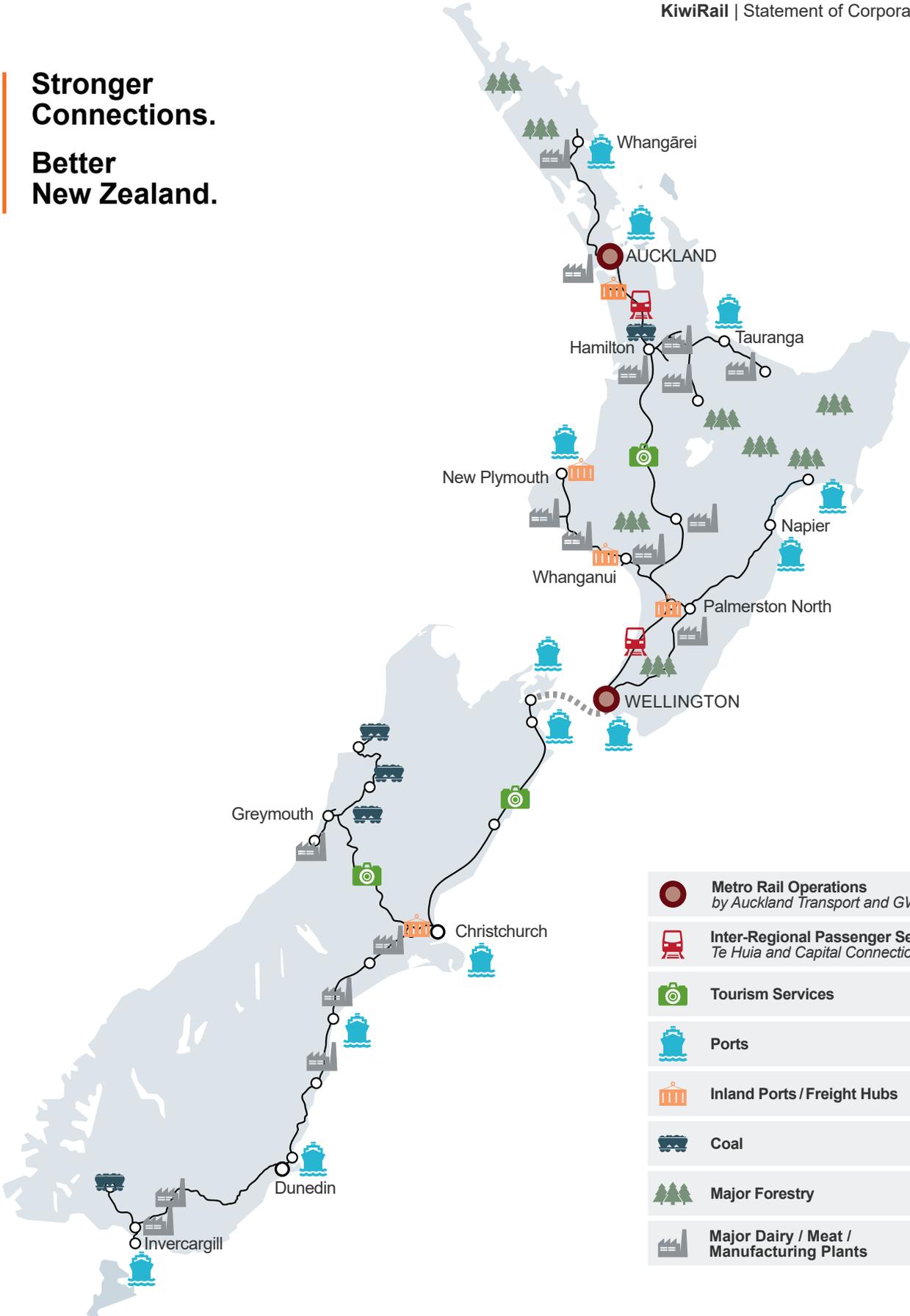


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**Stronger
Connections.**

**Better
New Zealand.**





Freight

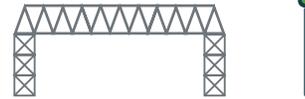
Moves around 19 million tonnes of freight each year



Freight task

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

Infrastructure



- 3100 signals
- 1500 public level crossings
- 106 tunnels
- 1344 bridges

Track



Operates and maintains 3700km of track, including six million sleepers, of which 50% are concrete



Freight services

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

Exports and imports



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

Interislander



Operates three ships making 2900 sailings per year*



Value

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

Sustainability



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

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

Property

Manages a portfolio worth \$3.6 billion with more than 18,100 hectares of land

Owns more than 1350 buildings



Manages 10,000+ leases, licences and grants



Our team

4500 employees
18% women
18% under 30 years old



Commuters

Operates Te Huia and Capital Connection, and manages the metro networks supporting millions of commuters each year.

Tourism



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

* Forecast sailings for FY22

** The Value of Rail in New Zealand – EY 2021

Objectives

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

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

The nature and scope, purpose and core strategies of KiwiRail are defined within this context.

Business Purpose

Our purpose is 'Stronger Connections, Better New Zealand'. Our people, our customers, our stakeholders and our shareholders want us connected to:

- Our customers and the future needs of their businesses
- The communities we serve and in which we operate
- Each other, for a better New Zealand.

Since the first rail was laid in 1863, the railways have been key to New Zealand's development, helping to move people and goods around the motu. KiwiRail is carrying this legacy into the future.

Nature and Scope

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

KiwiRail operates an Above Rail Business commercially and the Below Rail Network for all rail operators.

Above Rail – Business:

- Rail logistics services to freight markets
- Ferry services to rail and road freight markets, and for passengers and their vehicles
- Passenger services for public transport and tourism markets
- Property management and development for rail operations and third party land use.

Below Rail – Network:

- An infrastructure division delivering asset management and improvements in the rail network for all rail users.

KiwiRail is delivering a major renewal programme to improve our Above Rail Business and infrastructure projects for the Below Rail Network. The Programme Delivery section of the Statement of Corporate Intent sets out these activities in detail on page 11. The Above Rail Business and Below Rail Network are both supported by shared corporate services, including a specialist Zero Harm team, finance, legal, human resources, ICT, policy and funding, communication, and strategy teams.

We are accountable, through our Board, to shareholding Ministers for our commercial performance, to the Minister of Transport for infrastructure delivery and transport outcomes, and to the New Zealand public as our ultimate owner.

We're a national employer of 4,500-plus, have a presence in communities across New Zealand, and are a proud service provider to

our customers. We're part of New Zealand's history, and its future.

Here is what drives our business units:

Our Above Rail Business is being invested in to fund the renewal of our commercial assets – new locomotives, wagons, ferries and upgraded mechanical depots and terminals. The Above Rail Business must generate sufficient cashflow to fund its capital expenditure on an ongoing basis. Our Above Rail Business comprises:

Rail Freight

Rail Freight provides freight logistics services to its customers offering them a natural advantage through economies of weight and scale in long-distance services and a low-emissions transportation mode. We support import/export markets to and from coastal and inland ports, shift domestic volumes around New Zealand, carry bulk commodities and serve major industries like forestry and dairy.

Interislander

Interislander carries freight and passengers across Cook Strait. Our ferries are a critical extension to State Highway 1 and rail's main lines, providing an important service for New Zealand's supply chains. We pride ourselves on our on-board service for passengers, providing a great experience for the New Zealanders and international guests who travel with us.

Scenic and Commuter

Scenic provides rail tourism services that need to be financially viable in their own right. Operating the Great Journeys of New Zealand, we are motivated to provide a great experience on rail for locals and international tourists alike.

Commuter operates the Te Huia and Capital Connection services which are funded by Waka Kotahi and regional authorities, supplemented by passenger fares. We want to be a provider of more commuter services but rely on financial commitment from others.

Property

Property manages a portfolio of more than 18,000 hectares of land, 1,350 buildings and more than 10,000 leases, licences, and grants. We are focussed on growing the yield of our property revenues over time through rail-enabled, fit-for-purpose developments and intermodal regional freight hubs. This will create efficient conduits for freight movement around the country and support regional economic development. We are working to extend the core lease of rail land by 100 years to improve commercial performance and better align to the long economic lives of the infrastructure we are building.

Below Rail Network

Our Below Rail Network is funded for the long-term through the National Land Transport Fund (NLTF). Our focus is on lifting the national network to resilience and reliability, supporting the efficient movement of freight and complete major upgrades in the Auckland and Wellington metro networks.

We manage the operations, maintenance, and renewals and supports delivery of improvement programmes across 3,700km of mainline track, and 700km of yard track. We deliver the Rail Network Investment Programme to lift the national network to an ongoing condition of resilience and reliability.

Programme Delivery

Programme Delivery is responsible for the major project portfolio for both the Above Rail Business and the Below Rail Network, which receives specific project funding from the Government, including:

Above Rail - Business

- iReX Project – procuring two new ferries and rebuilding Picton & Wellington Terminals and associated rail infrastructure
- Rolling Stock – procuring replacement mainline locomotives, shunt locomotives and wagons

- Mechanical Depots – rebuilding depots and workshops.

Below Rail - Network

- Auckland Metro – upgrading the Auckland Metro network and supporting the City Rail Link project
- Wellington Metro – upgrading the Wellington Metro network
- Northland – rebuilding the North Auckland Line and potentially building the rail connection to Marsden Point
- Control Systems – replacing the network control software and setting up two new control centres.

Our strategy and focus for the next three years

KiwiRail is undergoing a significant transformation, with new locomotives, wagons, mechanical depots, terminals, ferries and digital technology supporting the business and the completion of the first three-year Rail Network Investment Programme to improve resilience and reliability of the network.

Our success matters because rail is critical for New Zealand’s economy, society, and environment. We are focused on delivering value to all our stakeholders: customers, employees, partners, shareholders, and the New Zealand public. We have set ourselves ambitious goals to maximise the benefits from the investment in rail.

Our 10-year strategy to meet these goals has two phases. This Statement of Corporate Intent focuses on the next three years of phase one – investing in reliable and resilient assets. Delivering these new assets is a multi-year programme. Our core operational focus in this period for our Above Rail Business is to maintain our core services, grow yield by getting more from the same assets, and plan our transition for when the new assets arrive. We are improving the integrity of our rolling

stock, expanding our Scenic products, re-setting commercial contractual terms with our freight customers, and readying the business for the new rolling stock,

ferries and digital solutions.

For the Below Rail Network, we will deliver Government investments to upgrade the rail network to enable resilient and reliable rail services for metro, freight and other rail operators. This work is primarily delivered through the Rail Network Investment Programme, the NZ Upgrade Programme and other infrastructure funds. Programme Delivery will be focused on delivery of the major capital investment programmes to specification, on time and within budget to ensure the business is positioned successfully for the second phase of our strategy.

Achieving this will springboard us into our second five years, where we will leverage our new, modern assets and increased capacity to continue to increase our market share of freight and passenger volumes.

These are ambitious goals both for New Zealand and for the 4,500 members of the KiwiRail team. Over the next three years we will continue our transformation to deliver this strategy through our key strategic themes.

Strategic Themes



Customer Centricity and Growth

Improving the reliability of our services and rolling out digital solutions so customers can directly manage and schedule their deliveries.



Commercial Delivery

Driving efficiency through higher asset utilisation, better ways of working, reducing our cost to serve and getting ready for new assets.



Sustainability and Innovation

Further reducing our environmental footprint through our infrastructure and operational activities and enabling our pathway to net-zero carbon emissions by 2050.



People and Safety

Ensuring people are valued and developed, supporting diversity and inclusion and improving our safety outcomes so our team goes home safely every day.



Capital Projects Delivery

Procuring new locomotives, wagons and ferries for the Above Rail Business and delivering the Government's network investments efficiently and effectively.

Customer Centricity and Growth

Customer Centricity and Growth is focused on putting the customer at the heart of everything we do, providing a digital customer experience and diversifying our revenue streams through new markets and property partnerships. KiwiRail is continuing to make it easier for others to do business with us. Digital improvements are simplifying the way customers make and manage bookings. We are also rolling out wagon traceability which will enable customers to directly manage and schedule their deliveries.

Commercial Delivery

Commercial Delivery encompasses initiatives that will improve our asset utilisation, modernise our ways of working, reduce our cost to serve, and prepare our people and processes for the arrival of our new assets. We will progress operational readiness programmes that are preparing for the arrival of new locomotives, the wagon assembly workshop and the new ships. These assets will provide a once-in-a-generation opportunity to drive organisational change.

For example, the new fleet of mainline locomotives for the South Island will be supported through the construction of new mechanical depots, and an asset management strategy that encompasses inventory management and preventative maintenance schedules. These changes will be required to allow for the new engine technology and will contribute to improved locomotive availability and, most importantly, fleet reliability. Similarly, the New Interislander programme is critical to get the most out of our two new, rail-enabled, higher capacity, low-emissions ferries and the improved passenger experiences they will offer.

Key to this workstream is the delivery of Ngatahi, a four-year software implementation project which began in June 2021 that will transform how we plan and execute our rail and Interislander operations. It will enable multiple benefits including better capacity management and greater slot utilisation; reduced train operating costs through better utilisation of people and assets to match the freight demand; and faster recovery after an on-network incident to improve our resilience and service performance.

People and Safety

People and Safety covers initiatives that support our aims to achieve Zero Harm, to attract key talent and retain our people to improve engagement and our diversity.

We are committed to reducing our critical risks and improving our environmental accountability to implement and sustain a Zero Harm environment. We manage worker-led safety initiatives through our network of Health and Safety Action Teams and through a High-Performance, High-Engagement (HPHE) strategy with our union partners. Our “Safety Rules Transformation” project is transforming the way we develop and communicate our rules, and verify they are complied with.

We will continue to implement our people strategy, underpinned by four key pillars:

- **Attract:** Diverse talent and the skills we need in the right place at the right time
- **Develop:** Our people have the capability they need to grow and deliver
- **Care:** A positive employee experience where people belong and can be their best
- **Enable:** Efficient people services and digital solutions now and in the future.

Sustainability and Innovation

We are focused on a sustainable net zero carbon future and digitisation to future proof the business. We are kaitiaki of the rail corridor, and with that comes a responsibility to care for and protect the health of the environment, our community and the economy.

The central pillars of our Rautaki Whakauka Sustainability Strategy are environment, community and economy. These reflect the Te Ao Māori values Kaitiakitanga (guardianship), Manaakitanga (care and protect), and Whanaungatanga (sense of connection) respectively. We bring these values to life by:

- Acknowledging the importance of our strategic partners and stakeholders, taking action to

meet their needs and building strong, enduring relationships

- Future-proofing our business by taking a long-term view of risks and opportunities, informing smart investment and minimising business disruption
- Playing our part to decarbonise our transport system, and drive the efficient use of resources and responsible environmental stewardship
- Building a trusted brand for our people and our future workforce
- Contributing to responsible economic development in regional communities / takiwā.

Capital Projects Delivery

Capital Projects Delivery is concentrating on delivering capital investments to enable future growth and bring sustained and improved asset resilience. These investments are covered in greater detail below.

Investment in KiwiRail

The Government's investment in rail is guided by the New Zealand Rail Plan. It is time-limited for the Above Rail Business, as this is a renewal programme to support us in our pathway to self-sustainability. It is ongoing for the Below Rail Network, as the national rail network serves all rail operators and New Zealanders as a whole. Key milestones in this planning period are identified in our Key Performance Indicators.

Above Rail Business

Rolling Stock

KiwiRail is renewing its fleet of locomotives and wagons. The Government has committed \$1.7 billion across Budgets 2019 and 2022 to support this renewal programme, and we will spend \$1.0 billion across this three-year planning horizon. The new assets will arrive progressively across this Statement of Corporate Intent period, with the final tranche to arrive by 2026/27. Renewing the fleet will improve service reliability and reduce maintenance costs and is essential for us to grow revenue, increase volumes on rail, and ultimately self-fund the next generation of rolling stock assets.

Mechanical Depots

KiwiRail is upgrading 12 mechanical depots across New Zealand (including building a new Waltham facility), supporting the safe work of our maintenance crews and improving the efficiency of our operations. The Government has committed \$207 million to support this activity, with the final spend occurring in 2024/25.

The Government has also provided \$105 million to rebuild the Hillside Workshops in Dunedin and assemble up to 1,500 wagons in the new workshops between 2023 and 2026 (through an \$85 million funding agreement with shareholders and \$20 million from the Provincial Growth Fund).

Ferries, Terminals

KiwiRail is leading the delivery of Project iReX, the once-in-a-generation renewal of the Interislander ferry fleet and upgrades to the portside infrastructure in Wellington and Picton. The project carries a total investment value of \$1.45 billion, for which the Government is providing \$435 million as equity and an additional amount in contingency, alongside investment by CentrePort Limited in Wellington and Port Marlborough New Zealand in Picton. KiwiRail is also investing its own funds and has taken on \$350 million in debt to support the procurement of the new ferries. They arrive in 2025 and 2026.

Core Asset Management

The Government appropriated \$87.3 million in Budget 2021. To support other commercial initiatives such as maintaining our existing assets and relocating our Wellington Train Control Centre for resilience purposes. This funding reduces to zero by 2024/25.

Provincial Growth Fund – Above Rail Business

KiwiRail is purchasing land for a future Central North Island Freight Hub in Bunnythorpe Palmerston North (\$40 million), completing a programme to refurbish tourism carriages and extend the platform in Greymouth (\$24 million), and progressing initial work on the development of Hillside Workshops in Dunedin (noted above).

Commuter rail

KiwiRail operates two commuter services, the Capital Connection between Wellington and Palmerston North and Te Huia between Auckland and Hamilton. These public transport services are funded by local Regional Councils, who access National Land Transport Fund funding to support their service. We are also refurbishing Capital Connection carriages with the support of the New Zealand Upgrade Programme (\$26 million), expected to be completed in 2022/23.

Electric fleet refurbishment

KiwiRail is refurbishing some of the Electric Fleet locomotives. The Government provided \$35 million for this purpose, with the refurbishments scheduled to be completed during this Statement of Corporate Intent period. The refurbishment will extend their economic lives and help to reduce carbon emissions.

Below Rail Network

Rail Network Investment Programme

KiwiRail will continue to deliver the Rail Network Investment Programme (RNIP). This supports:

- Investment in the national rail network to restore rail freight and provide a platform for future investments for growth
- Investment in the metropolitan rail networks to support growth and productivity in our largest cities
- Engage effectively with regional and community stakeholders on rail-related projects.

The first RNIP provides \$1.35 billion over the three-year period (2021/22 to 2023/24). The RNIP provides for \$406.1 million in 2022/23 and \$446.4 million in 2023/24 for the national network, and an additional \$62.5 million in 2022/23 and \$45.8 million in 2023/24 for improvement projects to support metro operations in Auckland and Wellington.

We will seek approval of the next three-year investment programme commencing in 2024/25, from the Minister of Transport, before 1 July 2024.

New Zealand Upgrade Programme

KiwiRail is the delivery agency for rail transport projects in the New Zealand Upgrade Programme (NZUP), representing up to \$2.0 billion in improvement value:

- Papakura to Pukekohe Electrification – \$375 million to electrify 19km between Papakura and Pukekohe, including installation of

overhead equipment, a new traction power feed and signaling upgrades. Expected completion in 2024/25.

- Wiri to Quay Park – \$318 million to provide a third rail line to ease the bottleneck between Wiri and Westfield, increase capacity around Westfield Junction and improve rail access to the Ports of Auckland and Quay Park. Expected completion in 2024/25.
- Drury Rail Stations – \$495 million to construct three new passenger rail stations at Drury Central, Drury West and Paerata and the associated bus interchange, park and ride facilities and connector roads. Expected completion in 2025/26.
- Wellington Metro Upgrade Programme – \$88 million to enable a safe and reliable increase in the frequency of train services at Wellington Railway Station and \$156 million for infrastructure upgrades to the Wairarapa Line to increase capacity and support a planned increase in the frequency of passenger services. Both projects are expected to be completed in 2025/26. In addition \$26 million was allocated to the interim refurbishment of the Capital Connection carriages (noted above) and upgrade of platforms north of Waikanae which is due to be completed by mid-2023.
- Northland Package – the Government announced its \$692 million Northland Package in June 2021 for rail works and SH1 roading improvements. The rail components are:
 - a new Marsden Point Rail Link, which is subject to Joint Ministers' approval of the Detailed Business Case (DBC). The project is expected to take up to five years from initiation to completion.
 - Whangārei and Otiria rail upgrades to 18-tonne axle load and system improvements. The project commenced in early 2022 and completion is expected late 2024.

- Ashburton Fairfield Freight Hub – \$2.5 million contribution to the rail component of a new inter-modal freight hub in Ashburton, enabling emissions reduction through mode shift.

Auckland metro growth, remediation and City Rail Link readiness

As noted, work is underway on Papakura to Pukekohe electrification, Drury Stations and Wiri to Quay Park projects through the NZUP programme.

We will also continue delivering the Rail Network Growth Impact Management programme to ensure the Auckland metro network is keeping pace with patronage and freight growth (\$166.8 million remaining), progressing the Auckland remediation programme to address the issue of rolling contact fatigue (\$30.1 million remaining), building a new substation to the west, and undertaking Be Ready contracts to support City Rail Link Limited in the completion of the City Rail Link (\$11.9 million remaining).

We will also deliver the Auckland Integrated Rail Management Centre project enabling co-location and integrated operations of multiple rail organisations (\$30.1 million remaining).

Wellington Metro growth and remediation

In addition to the NZUP projects described above, we will complete the remediation of the traction overhead lines in calendar 2022, continue with tunnel, track and bridges renewals particularly on the Wairarapa Line, upgrade the junction at Plimmerton and increase the resilience of the power supply.

In parallel, we will work closely with GWRC to ensure the introduction of new regional trains runs as smoothly as it did under our last partnership for the Matangi trains.

We are also investigating replacing the current signalling system with European Train Control System (ETCS).

Provincial Growth Fund – Below Rail Network

KiwiRail is progressing essential repair works on the North Auckland Line (\$178.5 million) and purchasing land in preparation for the Marsden Point Rail Link (\$40 million).

Key Performance Measures

Above Rail Business

KEY PERFORMANCE MEASURE	FY22 FORECAST	FY23 PLAN	FY24 PLAN	FY25 PLAN
Revenue (\$m) ¹	635	720-736	730-754	735-763
Rail Freight revenue (\$m) ¹	397	438-446	460-468	472-480
Interislander Freight and Passenger revenue (\$m) ¹	101	137-141	138-142	145-149
Scenic and Commuter revenue (\$m) ¹	12	31-35	47-51	55-59
Property revenue (\$m)	59	58	59	60
Operating surplus (\$m) ¹	115-125	150-165	185-212	200-235
Operating margin (%) ¹	18-20	21-23	25-29	26-32
Freight Net Tonne Kilometres carried (million)	4,163	4,360	4,408	4,721
On-Time Performance - Freight Premier (%)	90	90	90	90
Reliability - Locomotive Mean Distance Between Failures (000 kms)	52	55	58	60
On-Time Performance - Interislander - arrival within 15 minutes of scheduled time (%)	69	88	88	88
Achievement of major separately funded milestones				
• Number of Rolling Stock & iReX programme milestones completed	New measure	7 (100%)	4 (100%)	6 (100%)
• New assets delivered	New measure	356 new wagons in service 10 new locomotives and shunts Hutt Wheelshop operational	350 new wagons in service South Island Mechanical Hub facility operational (Waltham) Hillside Mechanical and Assembly facility operational	450 new wagons in service 33 new locomotives and shunts in service Ferry Terminals ready for first ship

¹ A range has been presented for financial years 2023 to 2025 reflecting sensitivity to ongoing uncertainties in KiwiRail's operating and trading environment. The forecasts include point-in-time inflation rate projections, and assumptions regarding further impacts of Covid-19 and economic growth, but exclude unforeseeable matters such as extreme events.

Below Rail Network

KEY PERFORMANCE MEASURE	FY22 FORECAST	FY23 PLAN	FY24 PLAN	FY25 PLAN
Overall Track Quality Index (average TQI) for Auckland Metro	New measure	35	35	35
Overall Track Quality Index (average TQI) for Wellington Metro	New measure	40.9	40.9	40.9
Achievement of major separately funded milestones and KPIs				
• Number of NZUP programme milestones completed	New measure	5 (100%)	4 (100%)	5 (100%)
• New assets delivered	New measure	n/a	Wiri to Quay Park third main line completed	Papakura to Pukekohe electrification complete Whangarei to Otiria 18-tonne axle load upgrade complete
• Number of Network Condition KPIs within target	New measure	14 (100%)	14 (100%)	14 (100%)
• All temporary speed restrictions (average TSRs) within target(s) for priority routes ²	80% within target(s)	90% within target(s)	100% within target(s)	100% within target(s)
• All Heat 40s (average Heat 40s) within target(s) for priority routes ¹	80% within target(s)	90% within target(s)	100% within target(s)	100% within target(s)
• Track Quality Index (average TQI) within target(s) for priority routes ¹	90% within target(s)	95% within target(s)	100% within target(s)	100% within target(s)

² These measures come from the Rail Network Investment Programme which includes a more fulsome range of targets and can be found here <https://kiwirail.co.nz/what-we-do/projects/rail-network-investment-programme/>

KiwiRail Group

KEY PERFORMANCE MEASURE	FY22 FORECAST	FY23 PLAN	FY24 PLAN	FY25 PLAN
Employee Net Promoter Score	1	5	5	10
Grow our younger employee demographic (% of total workforce under 30 years old)	17	18	19	20
Women in the workforce (%)	18	19	20	21
Total Recordable Injury Frequency Rate - TRIFR (number)	25	23	20	18
Safety, Health & Environment High Risk Events (number)	72	65	58	52
Rail Freight Carbon Intensity (grams of carbon dioxide equivalent emissions per net tonne kilometre)	27.0	26.2	25.9	25.7
Truck journeys avoided (million)	1.23	1.24	1.24	1.25

State-owned enterprise performance measures

Definitions of measures are on page 20.

	2022 FORECAST	2023 PLAN	2024 PLAN	2025 PLAN
SHAREHOLDER RETURN MEASURES				
Total shareholder return	n/a	n/a	n/a	n/a
Return on equity (%)	7	10	6	2
PROFITABILITY/EFFICIENCY MEASURES				
Return on invested capital (%)	7	10	6	2
Operating margin – above rail (%)	18-20	21-23	25-29	26-32
LEVERAGE /SOLVENCY MEASURES				
Shareholders' funds to total assets (%)	89	86	89	90
Debt to EBITDA	(1.1)	(0.4)	(0.2)	0.3
Gearing ratio (%)	2	1	2	3
Interest cover	842.0	101.5	61.8	22.2
GROWTH MEASURES				
Capital replacement	7.9	10.9	13.2	10.8
Revenue growth – above rail (%)	2	16	2	1
EBITDA growth – above rail (%)	(13)	32	29	11

Required information

Accounting Policies

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

Dividend Policy

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

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, accompanying notes and other information necessary to permit an informed assessment of the Company's performance
- Continuous Disclosure reporting as required by Treasury's Commercial Performance Team
- Regular reporting to Treasury's Commercial Performance Team for performance monitoring
- Other information requested by Ministers in accordance with section 18 of the State-Owned Enterprises Act 1986.

Significance

KiwiRail will not consult with Shareholding Ministers (unless consultation is otherwise specified by Shareholding Ministers as a

condition of their approval of that funding or investment) on:

- Transactions in the course of expenditure of approved Crown funding or investment in KiwiRail; or
- Major transactions that have been approved by Shareholding Ministers in accordance with the Companies Act 1993.

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

- capital expenditure or equity investment with a transaction value > \$50 million; or
- substantial diversification or overseas expansion (including offshore investments); or
- expenditure on activities inconsistent with the nature and scope of the activities as set out in this Statement of Corporate Intent; or
- involves payment of any dividend or return of capital to the Crown; or
- otherwise meets a criterion for consultation specified by Shareholding Ministers in KiwiRail's letter of expectations.

Procedures for share acquisition

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

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

Compensation from the Crown

KiwiRail expects to receive compensation from the Crown as per section 7 of the State-Owned

Enterprises Act 1986 for public policy work and projects undertaken by the company which have a public good element or purpose and would not be undertaken on purely commercial grounds.

Commercial Valuation of the Crown’s investment

There has been a \$266m increase in the commercial value to \$94m relating to free cash flows which has been partially offset by a change in discount rate.

The current earnings projections do not result in the Group paying income tax for the foreseeable future.

Key features of the current valuation include:

- 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 uses the nominal (i.e. inflation-adjusted) future cash flows set out in this SCI, with forward projections for years 4 to 20 that are aligned to KiwiRail’s long-term operating forecasts and capital requirements
- A terminal value of \$1,825 million has been included. The growth assumption in the terminal value is 2%
- A risk-free rate of 3.5% and discount rate of 7%
- PwC has confirmed the mathematical accuracy of the calculation of the DCF valuation prior to approval of the DCF value by the Board. PwC did not assess the inputs to the valuation calculation.

The current valuation of \$94m compares with the value as at 30 June 2021 of negative \$172 million. The key reasons for the change in value are:

- An increase in forecast cash flows of \$458 million as KiwiRail continues to deliver on its 10-year strategy and realise the benefits from capital investment;

- A change in the discount rate from 6% to 7% due to an increase in risk-free rates. This change reduces the value by \$350m.

The residual uplift in value is attributable to the change in terminal value.

\$m	30 June 2021	30 June 2022
DCF Enterprise Value	(124)	126
Less Net Debt	(48)	(32)
DCF Equity Value	(172)	94

The Value of Rail in New Zealand

It is important to note that the commercial valuation does not include the wider economic benefits that rail provides to New Zealand (externalities). These externalities were considered in the 2021 Value of Rail report prepared by Ernst & Young (EY). This involved modelling what would happen if the rail network did not exist, for example, if rail freight and metro services were replaced by road transport.

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

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

The value excludes indirect benefits from rail such as employment, tourism, connectivity, land use and resilience. Assessing these impacts would further increase the value of rail quantified above.

Appendix 1: Performance Measure definitions

Definitions of SOE Performance measures

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

Glossary

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

NPAT	Net profit after tax
NPS	Net Promoter Score (NPS) derives from asking employees or customers 'How likely are you to recommend 'company name' to a friend or colleague?' and basing that on a scale of 0-10. Scores of 9 or 10 are classed as promoters, scores of 7 or 8 are classed as passive, and scores of 0 to 6 are classed as detractors. The NPS is then calculated by subtracting the percentage of "Detractors" from the percentage of "Promoters" providing a score between -100 and 100.
NTK	Net tonne kilometres
NZUP	New Zealand Upgrade Programme
Operating Surplus	Net surplus (revenue minus expenditure) before foreign exchange, interest, taxation, depreciation, amortisation, impairment, grant income and fair value adjustments.
OTP	On time performance
PGF	Provincial Growth Fund
RNIP	Rail Network Investment Plan
Strategic Projects	Strategic Projects excludes the RNIP and covers Rolling Stock and Mechanical Facilities, Project iReX, NZUP, PGF and other capital projects.
TQI	Track Quality index is an aggregated, track-condition measure. It is based on readings from a track inspection machine.
TRIFR	<p>The Total Recordable Injury Frequency is the total number of injuries (all TRIs) requiring medical treatment, per million hours worked within an organisation.</p> <p>To calculate the TRIFR, the number of recordable injuries in a 12-month period is divided by the number of hours worked by all staff in the same 12-month period and multiplied by one million.</p>
Truck journeys avoided	Reduction in heavy truck trips as a consequence of freight being transported on rail rather than road.
TSRs	Temporary speed restrictions are placed on sections of track due to operational issues. They are reported in terms of minutes of potential delay due to the restriction.
TUC	Track user charge

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