

The rail 'turn-around plan'

KiwiRail's 10-year programme to create a sustainable rail business

Investment in KiwiRail announced by the Government today (18 May, 2010) marks the beginning of a long term plan to create a business capable of standing on its own feet financially.

The investment, subject to business cases, follows the Government's consideration of a 10-year plan prepared by KiwiRail for turning around the rail industry. It calls for investment in the business's assets rather than an operating subsidy.

The plan reflects the need to create a viable and efficient rail industry capable of meeting its share of freight traffic projected to grow by at least 75 percent by 2031.

The plan aims to increase rail traffic volumes and revenue, increase productivity, modernise assets and separate out the commercial elements of the business from the non-commercial.

It takes into account the following:

1. The views of our customers who say they need an efficient and reliable rail network to serve their businesses and meet future freight growth.
2. The need to develop partnerships and alliances with our customers, stakeholders and suppliers.
3. The need to restore rail's relevance - eroded over the past 15 years in many areas through lack of maintenance investment that has resulted in poor transit times and unreliable services.

Currently, an express freight train journey between Auckland and Wellington typically takes thirteen and a half hours - similar to transit times in the late 1970s. A truck on the same route takes nine hours.

To be relevant to customers the rail journey for express freight trains needs to be no more than 11 hours and it must be reliable.

We recognise that for the plan to succeed, we will need the support and engagement of our staff as well as their willingness to work with management to improve productivity.

Implementing the plan

There will be five major areas of investment and work to protect and grow our revenue, and create a sustainable rail system for New Zealand:

1. Step change in the Auckland-Christchurch route

- Reduce transit time and improve reliability along the route - easing curves, removing speed restrictions, greater renewals investment in bridges and sleepers and passing loops
- Improve exit and entry from Auckland and Wellington - improvements at terminals and on mainlines to reduce transit times and conflicts with commuter services
- Increase ferry capacity for rail freight - extend length of *Aratere* and make *Kaitaki* rail-capable

2. Other key routes

- Improve reliability and capacity with increased renewals investment in replacement of sleepers, strengthening of bridges, refurbishment of track formation

3. Enabling investment

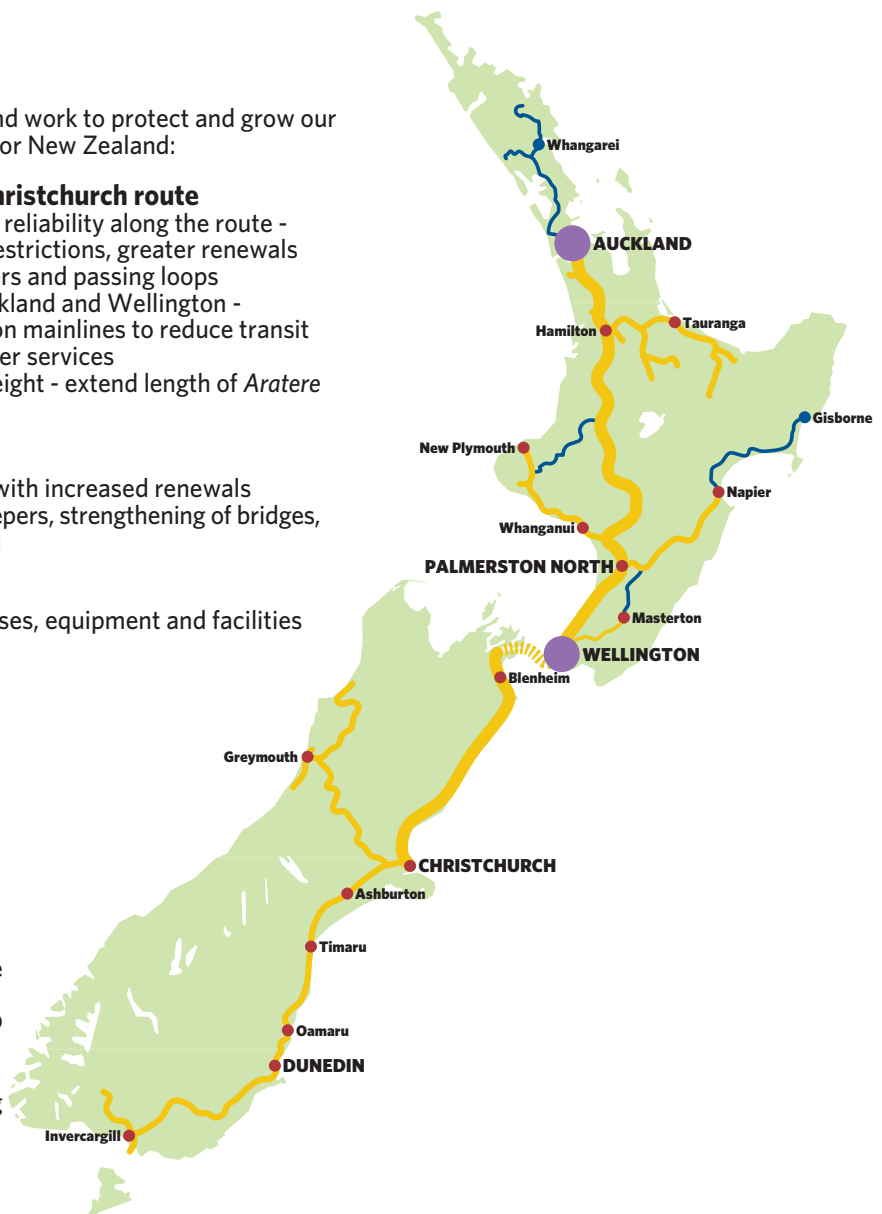
- Improved IT systems and processes, equipment and facilities at terminals
- New locomotives, wagons
- Improved track infrastructure

4. The minor lines

- Review business on North Auckland, Stratford-Okahukura, Napier-Gisborne and North Wairarapa lines
- Consultation with communities, customers and staff
- Close or mothball by 2012 if anchor customers do not emerge

5. Auckland and Wellington metro services

- Clarify and assign accountability for costs associated with operating metro networks



Key elements of the 'turn-around plan'

1. The business needs a connected network

Growing the business depends on KiwiRail maintaining a connected national network. However, minor lines that carry little or no traffic will only survive if they have proven future potential and/or an imminent anchor customer. Focussing our scarce capital on productive revenue is a key issue.

2. Growth in volume and revenue quality is essential

Freight is critical to the financial success of KiwiRail. It currently generates more than 75 percent of KiwiRail's revenue from carrying bulk commodities, import-export goods and domestic freight. The predicted near doubling of the freight task over the next 30 years and the opportunity to increase rail's market share on some routes underpins its importance to the business.

3. Auckland-Christchurch is the backbone of the network

The national network does not exist without its backbone (Auckland-Christchurch). Increasing the amount of domestic freight carried on all sectors along the main trunk backbone is critical to the growth and sustainability of the freight business. Other routes are busy and important. But in most cases, rail is already relevant and growth depends on some other factor - like natural growth in the economy.

4. Investment in infrastructure is critical to improving transit times and reliability

Targeted investment in key routes - particularly Auckland-Christchurch - will restore relevance and reliability and give the freight business the opportunity to protect the business we have today, reclaim business from the past and grow with the forecast freight growth. Critical elements are easing curves, laying new sleepers and strengthening bridges to decrease transit times as well as improving exit and entry in Auckland and Wellington and building or extending passing loops.

5. Greater ferry capacity is needed for the Auckland-Christchurch route to be competitive

Greater rail capacity will be needed in Interislander to support freight business growth. All sailings are likely

to require rail access, whereas today one of our ships does not have rail capability. Greater general capacity will be required also to meet the growing freight task.

6. Wagon and locomotive fleets need to be upgraded

Currently the newest diesel locomotives in the fleet are 30 years old and the average age of wagons between 25 and 30 years. Adding new locomotives and wagons to the fleet is critical to improving transit times and reliability and enhancing our natural advantage from a sustainability perspective through lower fuel use. New locomotives are already on order; further work is required for additions to the wagon fleet.

7. Productivity needs to improve

Productivity can always be improved and we are challenging ourselves to review and make necessary changes to achieve the necessary gains. Targeted investment in technology, processes and equipment will enable us to unlock a wide range of productivity improvements.

8. Long-distance passenger business growth will come from creating rail experiences

Few tourists or New Zealanders use long-distance trains as a means of travel from place to place. Future growth in long-distance passenger travel depends on improving the quality of the experience. New passenger carriages for the South Island will help but KiwiRail will need better infrastructure and possibly greater expertise in customer service.

9. The metro business depends on true costs being recovered

The metro business, funded by a mixture of fare box, council rates, NZTA and Government, is essentially non-commercial relative to our other trading businesses. These areas of business will be accounted for separately so that the total costs are fully understood by the stakeholders and there is wider appreciation of the impact of decisions made. Our job is to partner with the regions and the operators to ensure that the metro rail systems are a vibrant part of the integrated public transport system in each region.

The KiwiRail business

KiwiRail's trading businesses - KiwiRail Freight, KiwiRail Passenger including Tranz Metro and Tranz Scenic, and Interislander - are set up to listen to and respond to their customer needs and set the market priorities. They are accounted for separately but share overhead costs where practical. KiwiRail Network, KiwiRail Mechanical and Corporate teams support their plans to deliver for customers today and into the future.

KiwiRail key routes

Route	Key traffic
Auckland-Hamilton-Tauranga	Containerised export and bulk products
Auckland metro network	Commuters
Auckland-Christchurch	Containerised domestic goods Overseas and local passengers (<i>Overlander</i> and <i>TranzCoastal</i>)
Waikato-BOP forestry lines	Wood and wood products
Oringi-Palmerston North-Whareroa	Bulk milk
Wellington metro network	Commuters
Cook Strait	Containerised domestic goods Passengers and cars
Westport-Greymouth-Lyttelton	Bulk coal International visitors (<i>TranzAlpine</i>)
Edendale-Port Chalmers/Timaru-Lyttelton	Containerised dairy products and coal