

The Treasury

Strategic Issues and Shareholder Expectations Letters Information Release

Release Document

April 2015

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Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [2] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
- [3] 9(2)(ba)(ii) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information - would be likely otherwise to damage the public interest
- [4] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [5] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [6] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [7] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [1] appearing where information has been withheld in a release document refers to section 9(2)(a).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.



Office of Hon Todd McClay

MP for Rotorua

Minister of Revenue

Minister for State Owned Enterprises

Associate Minister of Foreign Affairs

Associate Minister of Trade

19 DEC 2014

John Spencer
Chair
KiwiRail Holdings Ltd
PO Box 593
WELLINGTON 6140

Dear Mr Spencer

KIWIRAIL REVIEW

Thank you for providing Ministers with an executive summary of KiwiRail's recently completed commercial review. We appreciate the considerable time and effort that the Board and management have put into the review.

We expect engagement with Ministers will be required over the coming months as the Government looks to make some decisions regarding KiwiRail ahead of Budget 2015. We expect that, whatever decisions the Government makes with respect to KiwiRail, the Board will be implementing the Government's preferred strategy when the time comes.

More detailed shareholder expectations will therefore follow in the coming months once the Government has made some decisions on the company's future direction. However, in the meantime, we expect KiwiRail to meet our expectations regarding post investment reviews and financing arrangements – consistent with the requirements for all State Owned Enterprises (see below).

Post-investment reviews

A system of post-investment reviews has been in place for Treasury monitored entities since 2011. Financial thresholds have been established, over which a post-investment review is required by Treasury (thresholds are detailed in pg. 28 of the Owner's Expectations Manual, via the Treasury Commercial Operations website). These documents have been very useful in enabling Boards and shareholding Ministers to better assess whether the benefits expected to be obtained from capital expenditure and/or new investments were realised in practice. Consistent with prior years, we request copies of any post-investment reviews over the defined threshold.

Non-Crown debt assurance

Should you undertake any borrowing, please ensure that all lenders are specifically made aware that borrowing by the company does not represent Crown debt, and accordingly is not guaranteed by the Crown. Given the financial situation of KiwiRail, we expect to be advised well in advance of KiwiRail entering into any material (i.e. over \$1 million) financing arrangements – so please ensure an appropriate time contingency is factored in for this consultation with Treasury and shareholding Ministers.

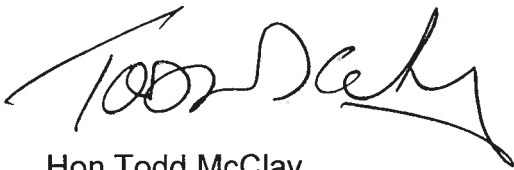
Engagement

We appreciate the Board's openness to working so closely with Treasury over the past six months, and encourage you to continue this close working relationship. Should you have any queries regarding this letter, please contact your Treasury relationship manager [1]

[1] Alternatively, please contact Fiona Chan (Manager, Governance and Performance on 04 917 6103).

My office will be in touch in due course to arrange a meeting between Ministers and KiwiRail to discuss the future direction for the company.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Todd McClay". The signature is fluid and cursive, with a long horizontal stroke at the beginning and a sharp hook at the end.

Hon Todd McClay

Minister for State Owned Enterprises

on behalf of shareholding Ministers

cc: Mr Peter Reidy, CEO, KiwiRail Holdings Ltd