KiwiRail

NEW ZEALAND RAILWAYS CORPORATION

Results for announcement to the market – 29 August, 2012
Reporting Period: 12 months to 30 June 2012
Previous Reporting Period: 12 months to 30 June 2011

	AUDITED 30 June 2012 (NZ$000s)	AUDITED 30 June 2011 (NZ$000s)	Percentage change
Operating revenues	715,761	667,400	7.2%
Operating expenses	(610,819)	(559,667)	(9.1%)
Operating surplus before major one-off items	**104,942**	**107,733**	**(2.6%)**
Major one-off items	(27,391)	(5,100)	(437.1%)
Net operating surplus	**77,551**	**102,633**	**(24.4%)**
Depreciation and amortisation	(309,449)	(283,138)	(9.3%)
Net finance costs and foreign exhange gains and losses	(34,567)	(48,144)	28.2%
Loss on sale of land	(18,096)	(2,281)	(693.3%)
Revaluation of land	(8,100)	0	-
Loss on transfer of assets to GWRC	0	(107,600)	100.0%
Impairment	(2,199,190)	0	-
Grant income	172,337	344,632	(50.0%)
Taxation (expense)/credit	14,491	27,900	(48.1%)
Net profit/(loss) after taxation	**(2,305,023)**	**34,002**	**-**
Total Assets	4,262,400	13,570,100	(68.6%)
Final Dividend	-	-	-
Dividend Payment Date	N/A		

Our significant net loss after tax of $2.3b results from impairments recognised to value our assets on a proper commercial basis. This one off adjustment has previously been announced publically.

Our operating surplus of $104.9m, before major one-off items, is a decrease of $2.8m from the prior year. Despite continued strong growth in our core rail freight business with freight volume 11% up on prior year, this has been offset by trading and operating challenges in the balance of our business. The flat global economy has dampened domestic freight growth and the on-going reduction in tourism due to the Christchurch earthquakes continue to impact on our Scenic and Interislander passenger businesses.

While the total operating surplus fell short of our expectations, our freight business revenue grew 15% and its EBITDA by 14% continuing strong growth from the previous year. This ongoing growth gives us confidence that our plan assumptions are valid in the area of freight and that our long term goals are achievable. It is clear that our customers are making tangible commitments to move more freight by rail, including such actions as moving operations to rail-sided land.

Our infrastructure and rolling stock investment has continued in accordance with our long term plan and the major metro upgrades for Wellington and Auckland are almost complete with a total anticipated investment of $1.2b on time and on budget.

Highlights of the year have been:

- Our freight business continues to show strong growth with revenue up 14.8% on last year.
- Improved on time performance of our freight trains, particularly our premier services, resulting from our investment in locomotives, wagons and network infrastructure, in combination with continued focus on improving our operating processes. For our premier freight train services we achieved an on time performance of 82% compared to 74% in the prior year.
- We have commissioned 20 new DL locomotives which have travelled over two million kilometres to deliver over 15,000 freight services. These, along with 535 new wagons, have enabled KiwiRail to successfully deliver the requirements for the last peak freight season, a record milk season and through the Ports of Auckland strike. While commissioning has taken longer than planned there has been minimal service impact to our customers.
- We have continued to examine our business structure to ensure it as cost effective and efficient as possible. This has resulted in making difficult decisions including: restructuring our infrastructure and engineering business unit; the potential sale of Hillside Workshops; seeking a partner for the Scenic business; and the review of lines that are not providing positive economic returns.
- We gained agreement from the Crown (our shareholder) to restructure our balance sheet. As a result our assets are now valued much more realistically in line with their market value or commercial return they generate. A new SOE will be formed to which all assets and liabilities apart from rail corridor land will be transferred.

- In addition to confirming an appropriation of $250m for equity increases in its budget for our 2013 year, the Crown also agreed to convert $322m of historic debt to equity providing us with a more appropriate level of debt in line with our long term plan.

It has also been a year of significant challenges:

- The on-going impacts of the Christchurch earthquakes on South Island tourism numbers combined with higher costs have reduced earnings in the Scenic business by $3.4m compared to the prior year.
- Interislander was also affected by the Christchurch earthquakes with anticipated growth not occurring. That and the additional costs associated with the *Aratere* extension and commissioning delays resulted in the Interislander operating surplus being down $4.7m.
- We continue to feel the impacts of the stilted global and New Zealand economies with its effects on our customers slowing our rate of growth.

Operating Revenues

The operating revenue includes sales to our rail freight, Interislander, and passenger customers (our "trading" revenue) as well as other income streams, such as manufacturing revenue and property rental from third parties. For the year ended 30 June 2012 KiwiRail has increased operating revenue by $48.4m (or 7.2%) over the same reporting period last year.

	30 June 2012 (NZ$000s)	**30 June 2011 (NZ$000s)**	**Percentage change**
Freight	457,634	398,500	14.8%
Interislander	123,893	122,900	0.8%
Tranz Metro	45,685	65,500	(30.3%)
Tranz Scenic	20,313	21,500	(5.5%)
Infrastructure	34,205	27,200	25.8%
Property and Corporate	34,031	31,800	7.0%
Total operating revenues	**715,761**	**667,400**	**7.2%**

The significant growth in our Freight business is an encouraging result and key to the success of our long term plan. Our import-export revenue grew 16% to $123m due primarily to the strong dairy export session. Our bulk business, including forestry, coal and bulk milk, grew by nearly 13% to $150m. As with import-export, this is also largely the result of the growth in the dairy season. The flat economy has resulted in domestic revenue growth of just 3%. It is pleasing we have been able to respond to the increased demand from our customers and also to the challenges of shipping changes between ports caused by industrial actions and altered shipping schedules.

Tranz Metro revenue is down on the prior year due to changed funding arrangements with GWRC effective 1 July 2011. Excluding this impact, revenue was in line with prior year with total passenger numbers materially the same.

The decline in Scenic revenue is due to the tourism impacts already mentioned. The most significant impact on passenger numbers was on the TranzAlpine service with passengers down 23%.

Major One-off Items

Impacting our operating costs are two major one off items.

The first is a write-down of inventory items that are effectively spare parts for our rail network. With the reduction in the asset value of our network infrastructure it was appropriate to also reassess the value of the items in inventory that support it. This write down totalled $11.8m.

The second is a restructuring provision in relation to our infrastructure and engineering business of $15.6m. As we continue to refine our business structure and also complete projects designed to catch up on past under investment in the rail network, it has been necessary to make the difficult decision to carry out this restructure. As a result, 181 positions will be disestablished over the next three to six months. The 2011 year included a restructuring provision of $5.1m.

Grant Income

KiwiRail receives grant income from the Crown and Regional Councils to complete specific rail projects on their behalf. The decrease reflects the Wellington and Auckland metro rail projects drawing to a close.

Total Assets and Impairment

The reduction of $9.3b in asset values is due to two key factors:

- A $2.4b reduction in our land value resulting from the normal revaluations performed by independent valuers. This reduction is covered by revaluation reserves and is caused mostly by a combination of methodology changes and market conditions.
- A $7.1b reduction in all other fixed assets as a result of the decision to restructure our balance sheet to value our assets in line with their market value or the commercial return they generate. Of the $7.1b, $4.9b is covered by revaluation reserves, with the remaining $2.2b being recognised as an impairment in the statement of financial performance.
- The remaining $0.2b increase in assets reflects our capital expenditure during the year and reductions in cash and inventories held at year end.

The intention to restructure our balance sheet was publically announced on 27 June 2012. At that time we indicated a write-down of approximately $6.7b and we stated that this was an estimate with the final figure to be determined by independent valuations. The final figure is $0.4b higher but is within the range of possibilities we expected. This amount did not include allowance for any impacts of land valuations as these are not related to the restructure, but are carried out by independent valuers as a normal part of our Financial Statement preparation.

Comparison with Statement of Corporate Intent

The impacts on our Tranz Scenic and Interislander businesses previously mentioned are the key reasons our operating revenue fell $21m short of the $737m target in our 2012 Statement of Corporate Intent (SCI). These impacts also contributed to the $35m shortfall against the EBITDA target. Our own challenges with delays in new rolling stock, the *Aratere* extension project difficulties and cost increases on major items such as fuel further reduced our earnings. Importantly, however, our freight business EBITDA grew 14% on the prior year with revenues exceeding the SCI target.

As the restructuring of our balance sheet was not contemplated in the SCI, the impairment and reduction in asset values are material variances to that.

Consistent with the Statement of Corporate Intent, KiwiRail will not pay a dividend in 2012.