KiwiRail

Results for announcement to the market – 30 August, 2013
Reporting Period: 12 months to 30 June 2013
Previous Reporting Period: 12 months to 30 June 2012

	30 June 2013 (NZ$000s)	30 June 2012 (NZ$000s)	Percentage change
Operating revenues	726,986	715,800	1.6%
Operating expenses	(618,753)	(610,819)	(1.3%)
Operating surplus before major one-off items	**108,233**	**104,981**	**3.1%**
Major one-off items	0	(27,391)	100.0%
Net operating surplus	**108,233**	**77,590**	**39.5%**
Depreciation and amortisation	(61,891)	(309,449)	80.0%
Net finance costs and foreign exhange gains and losses	(3,400)	(34,700)	90.2%
Loss on sale of land	46	(18,096)	(100.3%)
Revaluation of land	0	(8,100)	100.0%
Impairment	(399,307)	(2,199,190)	-
Grant income	181,740	172,337	5.5%
Taxation (expense)/credit	0	14,500	100.0%
Net profit/(loss) after taxation	**(174,579)**	**(2,305,108)**	**-**
Total Assets	1,009,600	4,262,400	(76.3%)
Final Dividend	-	-	-
Dividend Payment Date	N/A		

This is the first full year results announcement following the restructuring of rail operations during the year, which was reported in detail in the 2012 Annual Report of the New Zealand Railways Corporation ("NZRC") and also in its Half Year report at 31 December 2012. In summary, the assets and liabilities of NZRC (except for land and the Wellington Railway Station) were transferred to a new State Owned Enterprise (SOE), KiwiRail Holdings Limited (KiwiRail) on 31 December 2012. To provide comparable performance information for KiwiRail, this announcement has been prepared on the basis of a full year for KiwiRail with the comparative being the prior full year for NZRC.

Our operating surplus before major one-off items of $108.2m is an increase of $3.3m compared to the prior year. This is a pleasing result given the significant challenges and disruptions we faced throughout the year and is ahead of the upper end of the range of $104m to $107m we signalled in February this year. Challenges included weather disruptions, threatened Interislander industrial action, an early end to the dairy milking season due to drought and shortfalls associated with Solid Energy on top of an already depressed global market and the continuing effects of the Christchurch earthquakes on economic recovery.

Freight revenue continues to grow with a strong performance in the Import/Export and Forestry sectors. The Interislander has grown its commercial vehicle revenue, accommodated more rail freight volume and improved on-time performance and customer satisfaction while facing the challenges of the weather events and threatened industrial action. The actions we have taken with the Scenic business give us confidence this business is slowly showing signs of improvement.

We have continued to push our strategic agenda to drive the business towards becoming a self-sustaining and efficient rail business. While we still have a long way to go, this year we have:

- Seen our new DL locomotives performing well and we are in the process of commissioning a further 20.
- Restructured the Infrastructure and Engineering business while continuing to deliver complex projects to improve the effectiveness of our rail infrastructure.
- Continued to improve our on time performance measures in support of our customers.
- Re-chartered the Kaitaki ship to give us continuity of service for the next 7 years.
- Closed the Hillside operation with the foundry segment sold to a third party.
- Mothballed the Napier Gisborne line.
- Delivered and initiated a number of key projects in areas such as fuel cost and efficiency, work force planning, fleet management and work standardisation to improve productivity and reduce costs across the business.
- Developed and begun implementation of an organisation-wide KiwiRail Safety Improvement Plan.
- Managed the activities in the business to remain within the funding provided by the Crown and cash generated by our operations.

Operating Revenues

For the year ended 30 June 2013 KiwiRail has increased operating revenue by $11m over the same reporting period last year.

	30 June 2013 (NZ$000s)	30 June 2012 (NZ$000s)	Percentage change
Freight	466,800	457,634	2.0%
Interislander	124,300	123,893	0.3%
Tranz Metro	43,600	45,685	(4.6%)
Tranz Scenic	20,100	20,313	(1.0%)
Infrastructure	38,300	34,205	12.0%
Property and Corporate	33,900	34,070	(0.5%)
Total operating revenues	**727,000**	**715,800**	**1.6%**

The growth in our Freight business reflects a strong performance in the Import/Export and Forestry sectors (up 8.1% and 9.4% respectively) and Domestic freight up 2.3%. Bulk freight was down 7.4% due to the difficulties faced by Solid Energy and the drought affected dairy season.

Interislander's commercial freight revenue is up on the prior year, but passenger numbers were down. Revenue was impacted by the threated industrial action in December and also weather impacts that resulted in a requirement to cancel sailings.

We are very pleased with the performance of the Wellington Tranz Metro business supported by the introduction of the new electric Matangi trains. On time performance and customer satisfaction have both increased and fare box revenue is up 6% on prior year.

The introduction of the new Scenic carriages and the re-launch of the Northern Explorer service have resulted in improvements in this business which has been impacted by tourism declines.

Our Infrastructure revenue was up on prior year reflecting higher track access charges and projects with external parties.

Major One-off Items

In last year's result we highlight two major one-off cost items to better understand underlying operating performance. They were a write-down of obsolete inventory and the restructuring provision created in relation to our infrastructure and engineering business. No major one-off items require isolating from the operating surplus this year.

Non-Operating Items

Depreciation and amortisation is materially lower due to lower asset values following the move to valuing assets on a commercial basis.

Net finance costs were down on the prior year, mainly due to the conversion of historic Crown debt to equity in July 2013. This was highlighted in our Annual Report last year.

KiwiRail receives grant income from the Crown and Regional Councils to completed specific rail projects on their behalf. Work on these projects was at a similar level to the prior year and we are nearing the end of the major Wellington and Auckland metro rail projects.

Last year's impairment reflected the change to valuing assets on a commercial basis with a substantial reduction in value to achieve this. Each year, in accordance with accounting standards, we review the carrying value of assets against their market value and commercial value in the business. Their commercial value is derived from the net cash flow attributed to the segment (technically the "Cash Generating Unit") of the business to which they relate. Where the cash flows do not support a higher value, the asset must be impaired to their market value which is established by an independent valuer. Importantly, this means a large proportion of network renewals capital expenditure is impaired each year as we spend more on capital projects than is generated from our operating surplus. This will continue to be so until the business becomes cash self-sustaining.

The reduction in total assets is due to the company restructure. Rail land was not transferred from NZRC to KiwiRail. Total assets last year excluding land were $988m.

Comparison with Statement of Corporate Intent

Operating revenues were slightly (1%) below the target in our 2013 Statement of Corporate Intent (SCI). Our operating surplus was 10% below the $119.3m target. The impacts of weather plus the Solid Energy factors (both their coal volumes and the unsustainable contract pricing) alone reduced our surplus by at least $20m. Improved performance in other parts of the business and continued focus on productivity and costs enabled us to mitigate a large part of these negative impacts. While we are certainly disappointed we did not reach the target, the performance in the light of the challenges continues to confirm our strategy is working.

The business has been significantly impacted by an accumulation of events over the past 3 years. We estimate that the combined impact of the Christchurch Earthquake, the closure of Pike River mine, reduced Solid Energy volumes and their contract pricing, storms and industrial actions total $43m. Had these events, largely out of our control, not occurred our operating surplus would be in excess of $150m.

Consistent with the Statement of Corporate Intent, KiwiRail will not pay a dividend in 2013.