

**NEW ZEALAND RAILWAYS CORPORATION
(immediately prior to restructure)**

**Results for announcement to the market – 28 February, 2013**

**Reporting Period:** 6 months to 31 December 2012

**Previous Reporting Period**: 6 months to 31 December 2011



Note: Changes to the accounting designation of the business on 30 June 2012 result in the above figures of depreciation, amortisation and impairment, and therefore net profit, not being comparable between the periods. The results for these items are in line with our Statement of Corporate Intent and forecasts provided to Government.

Our operating surplus of $46.9m is a pleasing 7.6% ahead of the prior year period and has been delivered with good revenue growth in our core freight business. During the first six months of this financial year we have continued to make good progress towards delivering KiwiRail’s sustainable future. We have resolved a number of major strategic issues, as previously outlined in our long term plan and various announcements, helping to better position us as we continue to drive towards a self-sustaining and efficient rail business.

Notably we have:

* Closed the Hillside operation with the foundry segment sold to a third party.
* Mothballed the Napier to Gisborne line after considerable consultation with the community and Government.
* Restructured the Infrastructure and Engineering business while continuing to deliver complex projects on time and budget to improve the effectiveness of our rail infrastructure.
* Continued to make gains with our fleet reliability delivering on time performance consistently at acceptable levels.
* Completed the balance sheet restructure with the legal entity changes implemented to schedule.

While some of these decisions have been difficult due to the impact on communities and our people, they were essential to ensure we deliver on our objectives.

Our results reflect:

* Increased operating surplus of $3m with increased revenues of $14m and higher operating expenses of $11m. Operating costs have increased 3.5% mainly due to higher insurance premiums and materials and supplies. Insurance premiums reflect the overall market movement as a result of the Christchurch earthquakes while materials and supplies reflects lower levels of capital project activity resulting in lower capitalisation of these costs to assets. Staff costs have been within 1% of the prior year.
* Reduced net finance costs reflecting the conversion of $322m of historic Crown debt to equity executed in July 2012.
* The change to our accounting designation last year to enable our assets to be valued on a true commercial basis has two key impacts on our results. Firstly, depreciation and amortisation now reflect the asset values after the write-downs at 30 June 2012. Secondly, the impairment of capital expenditure associated with the Rail cash generating unit in excess of the commercial value of its assets. No impairment was recorded in the prior year half year as the commercial valuation basis had not been implemented at that time.

**Operating Revenues**

For the six months ended 31 December 2012 KiwiRail has increased operating revenue by $14m (or 4%) over the same reporting period last year.



The Freight business continues to grow both volume and revenue. The import export business has been the standout performer with revenue up 21%. This is due to an increase in shipping and port movements and has been enabled by our investment in new rolling stock and locomotives. The bulk freight business experienced low growth (1.3%) with material impacts from lower coal and bulk milk volumes. The flat domestic economy resulted in the domestic freight business growing just 0.6%.

The Interislander operating capability has been enhanced with all ships in service and the Aratere performing well as the cornerstone of the fleet. The Aratere’s additional capacity has been well utilised by our freight team. A difficult trading environment, however, with a declining overall Cook Strait passenger market, coupled with the threatened industrial action before Christmas, has resulted in revenue declining. The threatened industrial action also impacted our freight revenues.

The Scenic business has benefited from new carriages, greatly improving the customer experience. Combined with changes to the Northern Explorer, this has resulted in revenue improvements during the peak period. Despite this, the Northern Explorer is still some way from being profitable and the Coastal Pacific, while showing a small improvement, has not responded sufficiently to guarantee this service will continue in the current format. The TranzAlpine is still the premier service and we expect passenger numbers to improve alongside the Christchurch rebuild programme.

**Change to Group Structure at 31 December 2012**

As advised in our Annual Report last year, we have completed a restructure of the group on 31 December 2012. A new State Owned Enterprise, KiwiRail Holdings Limited, was established at 31 December 2012. The assets and liabilities that were previously held by New Zealand Railways Corporation were vested in KiwiRail Holdings Limited, with the exception of the Crown land made available to NZRC under its legislation. NZRC make the land available to KiwiRail Holdings under a long term lease for nominal consideration. Assets vested in KiwiRail Holdings included the shares in all subsidiary companies.

Note that the above tables reflect the business structure immediately prior to the legal entity changes effected on 31 December 2012. This is to ensure meaningful comparatives against the prior year.

**Comparison with Statement of Corporate Intent**

For the half year, we are within $4m of our target operating surplus with impacts from the flat domestic economy and lower coal volumes the key contributors.

The balance of the year presents some challenges. The issues facing Solid Energy will potentially result in significantly less coal being moved from their West Coast mines and would then negatively impact our freight revenue and earnings. Their difficulties also mean it is unlikely we will resolve the pricing component of our contract with them. This relates to our contract negotiations to ensure the returns we receive fairly reflect our costs of operating the West Coast coal services, as highlighted in our Statement of Corporate intent. In addition, our bulk milk freight movements will be down on plan due to the likely earlier than forecast end to the dairy milking season. These challenges, combined with the continued flat outlook for domestic freight and Cook Strait passenger numbers, mean we expect our operating surplus to be in the range of $104m to $107m against our Statement of Corporate Intent target of $119m.

Despite this, over the next six months we will remain focused on pursuing further opportunities to improve our performance and service to customers, while continuing to closely manage costs.

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