NEW ZEALAND RAILWAYS CORPORATION

Results for announcement to the market – 1 March, 2011
Reporting Period: 6 months to 31 December 2010
Previous Reporting Period: 6 months to 31 December 2009

	UNAUDITED	**UNAUDITED**	
	31 December 2010 ($000s)	**31 December 2009 ($000s)**	**Percentage change**
Operating Revenue	NZ$ 326,024	NZ$ 310,379	5.0 %
Grant Income	NZ$ 208,404	NZ$ 249,103	(16.3%)
Revenue from ordinary activities	**NZ$ 534,428**	**NZ$ 559,482**	**(4.5%)**

Operating profit before depreciation and grant income	**NZ$ 43,345**	**NZ$ 26,848**	**61.5%**
Profit from ordinary activities after tax	**NZ$ 90,790**	**NZ$ 125,637**	**(27.7%)**
Final Dividend	**-**	**-**	**-**
Dividend Payment Date	**N/A**		

The Turnaround Plan developed over the last 18 months by KiwiRail required a significant uplift in revenue and operating earnings to generate sufficient cash to reinvest in rail assets, alongside the funding support provided by the shareholder.

The first half of the 2010/11 financial year has delivered an encouraging start to that goal despite a number of challenging circumstance outside our control, such as the September Christchurch earthquake, major slips at Kaikoura and Manawatu, and the Pike River Coal mine tragedy. In addition to this New Zealand has only slowly begun a recovery from the Global Financial Crisis.

Revenue from Ordinary Activities

Operating revenue

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 from third parties. For the six months ended 31 December 2010 KiwiRail has increased operating revenue by $15.6m (or 5%) over the same reporting period last year.

This improvement is primarily through significant growth in Freight trading income (up 13% on the same period last year). This improvement was across all trading categories with Bulk (+12.7%), Domestic (+15.7%) and IMEX (+12.2%) all up on the comparable period last year.

The other business units showed modest improvement over the comparative periods with the exception of Tranz Scenic which experienced a 20% drop in patronage on the Tranz Alpine through earthquake disruptions.

The operating revenue only shows 5% overall increase as the prior year period included a one-off external income stream of around $15m for the balance of the construction of commuter carriages for Auckland Metro.

Grant Income

KiwiRail receives grant income from the Crown and Regional Councils to complete specific rail projects on their behalf. The most significant of those includes the Wellington Regional Rail Plan (WRRP) and the Auckland metro rail developments (DART and AEP).

Grant income decreased by $40.7m (-16.3%) from the comparative period reflecting the levels of activity undertaken on these projects combined with changes in the way KiwiRail is funded (-$3.0m).

KiwiRail no longer receives an operating grant from Government and instead receives equity funding for specific capital projects outlined in the Turnaround Plan. As part of the transition from an operating grant to equity funding, KiwiRail has drawn down the majority of the rail upgrade and growth appropriation to complete projects commenced before the Turnaround funding was available.

Operating profit before depreciation and grant income

The Operating Profit before depreciation and Grant income (effectively EBITDA) has increased from $26.9m for the six months ended 31 December 2009 to $43.4m for the year ended 31 December 2010, a 61.5% increase. This captures the direct revenue improvements of rail freight as outlined above (offset with a small increase in variable operating costs) as well as modest EBITDA improvements for the balance of the business.

Profit from Ordinary Activities after Tax

The movement in the Profit from Ordinary Activities after Tax was driven by the revenue improvements and changes in Grant Income outlined above. In addition, the current period was also impacted by a number of other key factors:

(a) Depreciation charges have increased by $4.7m over the comparative period as a result of new capital expenditure.
(b) The tax charge of $1.7m relates to the release of deferred tax balances to the profit and loss.
(c) Net Finance costs have increased from $20.0m last year to $21.6m (+$1.6m) as a result of costs associated with the restructure of the Aratere finance lease, interest charges on the new locomotive debt and an increase in interest rates.

Capital Expenditure

The capital expenditure target presented in the Statement of Corporate Intent has subsequently been reprioritised as part of the Turnaround Plan business case presented to Government. As a result the projection has been revised downwards from $530.9m to $455.9m for the year ending 30 June 2011.

Actual capital expenditure for the six months to 31 December 2010 was $154.8m against a revised projection of $244.2m. The difference predominantly relates to the later than expected arrival of the new locomotives from China and timing in the procurement of new wagons.

Comparison with Statement of Corporate Intent

The Statement of Corporate Intent targeted Operating Revenue of $685.2m for the financial year to June 2011. At the half year the group is within 2% ($5.2m) of the year to date target of $331.3m (which is a significant increase over the previous half year).

Grant Income was projected at $502.1m for the year ending 30 June 2011. At 31 December 2010 grant income was $208.4m, $49m behind the year to date projected amount due to deferral of spend on the major metro projects into subsequent financial years.

Other key performance indicators are largely progressing as outlined in the Statement of Corporate Intent. KiwiRail has made significant progress on the renewals programme, ordering of 300 new CFT wagons, commissioning of the first six of the 20 new locomotives and the extension of the Aratere.

Looking Forward

The Statement of Corporate Intent has a full year EBITDA target of $120.8m and in addition to this a number of operational and capital targets.

Delivery of the full year EBITDA target will be impacted by the loss of production from Pike River Coal, lower milk volume demand and the second devastating earthquake in Christchurch.

Dividend Payment
Consistent with the Statement of Corporate Intent, KiwiRail will not pay a dividend in 2011.