KiwiRail

NEW ZEALAND RAILWAYS CORPORATION

Results for announcement to the market – 1 September, 2010
Reporting Period: 12 months to 30 June 2010
Previous Reporting Period: 12 months 30 June 2009

	30 June 2010 (000s)	30 June 2009 (000s)	Percentage change
Operating Revenue	NZ$ 646,939	NZ$ 538,811	20.0 %
Grant Income	NZ$ 458,499	NZ$ 404,445	13.3 %
Revenue from ordinary activities	**NZ$ 1,105,438**	**NZ$ 943,256**	**17.2 %**

Operating profit before depreciation and grant income	**NZ$ 74,386**	**NZ$ 84,042**	**(11.4 %)**
Profit from ordinary activities after tax	**NZ$ 185,476**	**NZ$ 238,730**	**(22.3 %)**
Final Dividend	**-**	**-**	**-**
Dividend Payment Date	**N/A**		

Commentary

KiwiRail generates revenue from a variety of activities including Freight, InterIslander and Passenger businesses. We also record income for capital grants received for major projects such as the Auckland and Wellington metro developments. When assessing KiwiRail's underlying operating performance we exclude the grant income and focus on operating revenue and operating profit before depreciation and grant income.

Revenue from Ordinary Activities

<u>Operating revenue</u>

The significant percentage change in operating revenue over the comparative period is largely explained by timing of the formation of the KiwiRail group. The purchase of the Toll Freight and Passenger businesses occurred on 1 October 2008 with the business further expanded in March 2009 with the acquisition of the Mechanical Services division from United Group.

Despite very tough national and global trading conditions, the group maintained underlying operating revenue at a similar level to the previous year (when annualised). This revenue performance was significant in that the first half of the year was particularly soft. Freight revenue was 12% below the previous year for the first six months and 11% above for the second half of the year. A number of significant freight contracts were entered into through the year driving a strong second half performance, and positioning the group solidly into the new financial year.

Grant Income

Grant income increased by $54m (13.3%) over the comparative period predominantly due to receiving a full year of the Government operating grant ($22m) and an increase in the level of capital grants for the metro projects currently underway in Auckland and Wellington ($36m).

Comparison with Statement of Corporate Intent

The Statement of Corporate Intent projected Revenue from ordinary activities of $1,245.3m for the financial year to June 2010. At the half year this projection was revised downwards to $1,172.0 due to lower capital grant receipts of $45.0m as well as lower revenues of $28.3m due to the economic downturn and fuel price changes. Revenue from ordinary activities for the 12 months ended 30 June 2010 was $139.9m less than the original projection per the Statement of Corporate Intent. This reduction is based on lower capital grants of $131.5m as well as lower revenues of $8.4m due to the economic downturn.

Operating profit before depreciation and grant income

Underlying operating profit has decreased from $84.1m for the year ended 30 June 2009 to $74.4m for the year ended 30 June 2010. This decrease is predominantly due to the impact of including a full year's result for the Freight and Passenger businesses (including the unprofitable months of July to September) and a one off reimbursement of acquisition costs included in the previous year's result.

Profit from Ordinary Activities after Tax

Similar to the revenue commentary above, profit from ordinary activities after tax has been impacted by the business acquisitions. Further to this, profit for the current period was impacted by a number of other key factors:

(a) Depreciation charges have increased by $65.2m over the comparative period as a result of the revaluation of infrastructure assets at 30 June 2009.
(b) Deferred tax charged to the income statement has increased by $19.8m over the comparative period due to the change in the future tax treatment of depreciation on buildings announced in the budget during May 2010.
(c) Operating profit has decreased by $9.6m from the comparative period largely as a result of challenging economic conditions. These decreases have been partially offset by an increase in Government grant receipts of $54.1m.

The Statement of Corporate Intent reported a net profit projection of $348.3 million for the 12 months ended 30 June 2010. The actual result for the 12 months of $185.5m is different from the projected result due to a number of key factors.

(a) Government grants were $132.0m less than projected in the Statement of Corporate Intent which is predominantly due to lower than anticipated spend on the metro projects in the year to 30 June 2010. This is a timing issue with this grant income and related capital expenditure being predominantly incurred in the 2010/11 financial year.
(b) The revaluation of derivative instruments during the year resulted in $14m of foreign exchange losses which varied from the underlying foreign exchange assumptions in the Statement of Corporate Intent.
(c) An additional deferred tax liability of $19.8m was charged against profit following the changes to depreciation rules on buildings as outlined above.

At an EBITDA level KiwiRail achieved a final result of $74.4m against a full year target of $59.6m.

Actual capital expenditure for the year ended 30 June 2010 was $549m against a projection of $767m in the Statement of Corporate Intent. The difference predominantly relates to progress on the metro projects in Auckland and Wellington and slower than anticipated spend on other initiatives such as the new rolling stock.

Dividend Payment

Consistent with the Statement of Corporate Intent, KiwiRail will not pay a dividend in 2010.

Looking Forward

KiwiRail is expected to grow its business significantly over the next 12 months as the Government provides equity injections into the business in accordance with the KiwiRail turnaround plan.