KiwiRail

Results for announcement to the market – 25 August 2017
Reporting Period: 12 months to 30 June 2017
Previous Reporting Period: 12 months to 30 June 2016

- $52 million operating surplus in the year to 30 June 2017
- $92 million underlying operating surplus excluding $40 million impact from Kaikoura earthquake
- Productivity savings of $18 million, building on $27 million in 2016
- Operating margin increase from 12.3% to 14.5% excluding earthquake impacts
- Premium freight on-time performance improved by 20% year on year
- Commitment to Shareholder met for second year

KiwiRail has come through the seven months following Kaikoura's devastating earthquake with a strong underlying operating surplus, achieving its commitment to Government for the second year running, excluding earthquake impacts.

The FY17 result shows a $52 million surplus achieved despite a $40 million revenue and cost impact from the earthquake and its aftermath.

If the earthquake had not occurred, the operating surplus would have exceeded forecast, budget and the FY16 underlying result of $86m, Chairman Trevor Janes says.

"KiwiRail's performance in the first four months of the financial year showed our growth strategies of simplifying our business, standardising our assets and investing in our people were really starting to pay off," says Mr Janes.

"Before November's event took out our major South Island services on the Main North Line (MNL), we were seeing the results of our efforts and anticipating a record season for our passenger and freight businesses.

"Operating margins were increasing due to significant productivity savings which in FY17 totalled $18 million, building on the $27 million achieved in 2016," Mr Janes says.

This helped KiwiRail to absorb the $9 million revenue impact of a fire which in February took out the South Island's Midland Line for six weeks, cancelling its freight services and the award-winning TranzAlpine tourism journey.

"This is a strong financial result for KiwiRail in a challenging year. Our recovery from these events is set to continue in the next 12 months, particularly now that freight is soon to be running again on the MNL between Picton and Christchurch, albeit in limited capacity.

"One of the earthquake's stranger effects is that it has increased asset impairment. An accounting requirement of the organisation means capital expenditure is written off each year, which consequently values assets at substantially below replacement cost.

"This treatment has never been more anomalous than this year as we have written off all of the earthquake rebuild costs, despite it delivering significant value to NZ.

"I am pleased that the Government has this year announced a review of rail which will look at KiwiRail's long-term funding options and may address this issue."

KiwiRail Chief Executive Peter Reidy says the earthquake had widespread revenue and cost impacts as freight flows around New Zealand changed, along with the effects on passenger services on the Interislander ferries and rail tourism journeys.

The $40 million impact is made up predominantly of domestic freight revenue loss as the MNL closed, plus some effect from falls in bulk freight such as steel and gas. Passenger volumes on the Interislander also took a hit as tourists avoided road travel to Christchurch, and the Coastal Pacific tourism service was cancelled.

"There have been revenue gains made in industries less affected by recent events such as forestry, which was a standout performer in the year, up 7%. KiwiRail's strong port partnerships saw volumes at Port of Tauranga rise by 12%, while we actively enabled the transfer of freight from the earthquake damaged CentrePort in Wellington to the ports of Napier and Auckland.

"Tourism looks set to rebound quickly with the 8% rise we were seeing in our rail passenger journeys prior to November giving confidence that this is sustainable growth that will continue once our Coastal Pacific returns next year."

Mr Reidy says he is especially pleased that KiwiRail's continued focus on service reliability has seen significant gains.

"I'm proud of our people who improved reliability for our premium freight customers by 20% year on year, and lifted On Time Performance (OTP) of all our freight services, which was up 8% to 91% overall.

"OTP is all about meeting our customer promise, and is a critical factor for customers shifting more freight on rail. That's important for New Zealand, as every tonne of freight moved by KiwiRail is a 66% carbon emissions saving over road.

"These service improvements coupled with customer satisfaction gains in our tourism rail journeys and the Interislander have set us up to not only recover well from recent events, but to tackle the next 12 months building on our strong operational performance.

"Safety for KiwiRail's people and the public continues to be a major focus with further improvements made in the year to total recordable injuries– down 15% - and the Total Recordable Injury Frequency Rate (TRIFR), down 3%, building on reductions in the previous two years. Over the past three years, TRIFR has decreased by 45%.

"Our High Performance, High Engagement programme of work with frontline staff and our union partners continues to drive the transformation of our culture, and resulted in recognition at the Workplace Safety Awards this year for staff engagement," Mr Reidy says.

Included in the financial result is the purchase of the Kaitaki ferry from Irish Ferries in May which reduces charter fees and secures the future of the Interislander service as work continues on a longer-term plan for the fleet. The result also includes $8m for a change of accounting treatment of drydock costs.

“KiwiRail is a key part of New Zealand’s integrated transport network – the State Highway One across the strait – and last year we took more than 1.1million trucks off the roads, up on the previous year’s measure.

“We also enable the large commuter growth in our major cities, providing the network for 32 million passenger journeys each year. Train patronage in Auckland has grown 17% in the past 12 months, and almost 80% over the past five years. Our network teams are a critical part of that success.”

Mr Reidy says he is pleased with the efficiencies, productivity gains and operational performance improvements which KiwiRail has implemented over the past three years, enabling smart investment and allowing its customers to grow.

“Over the next 12 months we will invest where growth is most needed for our import/export and domestic freight forwarders while driving a strategy of renewal for our ageing rolling stock fleet to ensure further reliability and capacity for customers.

“We will continue to drive productivity initiatives and efficiencies throughout the organisation.

“Assisting with the rebuild of State Highway One and then working with our NZTA partner in the NCTIR alliance to get the MNL back to full freight capacity is a major focus for the next 12 months, benefitting South Island consumers due to reduced supply chain costs.

“The benefits of rail to New Zealand, though, are far beyond our bottom lines. We are committed to being a reliable, sustainable and valuable organisation for our customers, our people, and New Zealand.”

	30 June 2017 NZ$m	**30 June 2016 NZ$m**	**Percentage Change**
Operating revenues	594.7	694.0	(14.3%)
Operating expenses	(542.5)	(618.1)	12.2%
Operating surplus	**52.2**	**75.9**	**(31.2%)**
Capital grants	27.6	32.9	(16.1%)
Impairment	(295.8)	(216.3)	(36.8%)
Depreciation and amortisation	(77.1)	(67.5)	(14.2%)
Net finance costs and foreign exchange gains and losses	(11.2)	(19.3)	42.0%
Movement in value of investment properties	6.1	(0.1)	6,200.0%
Share in net income from joint venture	0.4	0.4	0%
Insurance proceeds	100.0	-	100%
Other income	0.5	-	100%
Taxation (expense)/credit	-	-	-
Net (loss) after taxation	**(197.3)**[i]	**(194.0)**	**(1.7%)**

Operating surplus (excluding earthquake impacts and significant items)	**91.8**	**85.5**	**7.4%**

Final Dividend	**-**	**-**	**-**

Operating Performance

Overall revenue for the year ended 30 June 2017 has reduced by $99m and varies by business unit as follows:

	30 June 2017 NZ$m	30 June 2016 NZ$m	Percentage Change
Freight	345.6	389.8	(11.3%)
Interislander	130.2	127.6	2.0%
Tranz Metro	0.1	59.7	(99.8%)
Scenic Journeys	22.8	29.7	(23.2%)
Property & Corporate	46.4	44.5	4.3%
Infrastructure & Asset Management	49.6	42.7	16.2%
Total Operating Revenue	**594.7**	**694.0**	**(14.3%)**

The reduction in revenue primarily reflects the impact of the Kaikoura earthquake and the end of the Tranz Metro contract on 3 July 2017.

Comparison with Statement of Corporate Intent (SCI)

We achieved an operating surplus of $52m. Excluding the impact of the Kaikoura earthquake, our underlying operating surplus was $92m. This is slightly above our SCI target of $80 - 85m.

Operating revenues were $42m down on our SCI targets, primarily reflecting the impact of the Kaikoura earthquake. Operating costs were $13m below SCI target reflecting continued productivity initiatives and a change in accounting treatment for drydock costs.

Consistent with the Statement of Corporate Intent, KiwiRail will not pay a dividend for the year ended 30 June 2017.

---

[i] The net loss for the year of $197.3m reflects the impairment of KiwiRail's rail assets. As the rail network does not generate sufficient cashflows to cover the level of required investment, a large proportion of the accounting value must be written off each year