

KiwiRail Holdings Limited

Results for announcement to the market – 28 February 2022

Reporting Period: 6 months to 31 December 2021

Previous Reporting Period: 6 months to 31 December 2020

CONFIDENTIAL – Commercially sensitive

Media Release

28 February 2022

KiwiRail result reflects challenging environment

KiwiRail's half-year result reflects a challenging six months operating in an environment shaped by the impacts of COVID-19.

KiwiRail Holdings Limited, which owns and operates New Zealand's rail network and the Interislander Cook Strait ferries, today announced a Group operating surplus¹ of \$64.9m for the six months ended 31 December 2021 (HY22).

The HY22 result is the first to be reported under KiwiRail's new funding model. Under this model the "below rail" or network component of the railway is fully funded through the National Land Transport Fund (NLTF), supported by the Crown and track-user charges from the market.

This means that the Group operating surplus of \$64.9m reflects KiwiRail's "above rail" commercial operations.

HY22 operating revenue for the above rail business was \$317.4m. Revenue excluding fuel and track user charge recoveries was \$301.8m, which was \$4m better than comparable revenue for HY21.

However, increased bulk revenue and import-export (IMEX) revenue were more than offset by the negative impact of Covid on international and domestic tourism, affecting scenic services and ferry passenger numbers. Reduced commercial vehicle and passenger capacity on the Interisland ferry fleet, inflationary pressure, insurance costs and Covid-related expenses also affected the result.

Below rail operating expenses (funded primarily through the NLTF and recoveries from Auckland and Wellington metros) for HY22 were \$91.3m. This comprises the costs of maintaining, operating and managing the 3,700km rail network, including the Auckland and Wellington metro areas.

KiwiRail Acting Group Chief Executive David Gordon says HY22 was a testing half-year for the business, and the result reflects that.

¹ Operating surplus represents earnings before depreciation & amortisation, interest, impairment, capital grants and fair value changes.

“We realised the benefits of changes to our train schedules allowing us to carry more freight to and from Port of Tauranga. This benefited the country by easing congestion in the supply chain and also boosted our rail freight revenue for the half-year.

“We also had good revenue growth in bulk freight.

“However, the result also reflects the ongoing impact of Covid on our costs and tourism business on the trains and ferries, and the ageing ferry fleet experiencing a period of poor reliability. Both of these factors look likely to impact the full year results too.

“Ferry freight volumes were down significantly as the result of mechanical failures affecting the ships. Kaiarahi required major repairs to its gearbox after its sudden failure in August and she is not expected to be back in service for several more months. Aratere also needed work at critical times.

“We moved as quickly as possible to lease an additional freight ferry, Valentine, to provide capacity and resilience on Cook Strait but she only started sailing regularly in January”

Mr Gordon says the disruptions underline the importance of KiwiRail’s contract for two new rail enabled ferries with the Korean shipbuilder Hyundai Mipo signed on 30 June 2021.

Overall resilience in the business will also be improved by the signing in October of a contract for the delivery of 57 new, state-of-the-art, locomotives. The locomotives, which will be built in Spain, will begin arriving and entering service in the South Island from early 2024.

Mr Gordon says KiwiRail is continuing to achieve in challenging times.

“We successfully carried out our biggest ever work programme on the Auckland commuter network over the holiday break, and at the same time delivered further programmes in the Wellington commuter network, Northland and Bay of Plenty.

“We are making good progress on delivering on the Government’s investment in rail infrastructure maintenance and upgrades.

“Our multi-year programme to restore a resilient and reliable railway is well underway. It lays the groundwork for KiwiRail to play a growing and vital part in New Zealand’s transport infrastructure, helping to lower transport emissions and ease domestic supply chain constraints.

“We still have a substantial amount of work to complete, but I am proud of what our team has achieved so far.”

ENDS

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Group Reported Results	UNAUDITED	UNAUDITED	Percentage change
	31 December 2021 (NZ\$million)	31 December 2020 (NZ\$million)	
Operating revenues	408.7	354.4	15.3%
Operating expenses	(343.8)	(297.9)	(15.4%)
Operating surplus	64.9	56.5	14.9%

Capital grants	232.5	180.3	29.0%
Depreciation and amortisation expenses	(79.7)	(67.9)	(17.4%)
Foreign exchange and commodity losses and net finance expenses	(14.5)	(2.6)	(457.7%)
Impairment	(117.6)	(184.5)	36.3%
Insurance proceeds	-	34.1	(100.0%)
Other income	-	9.0	(100.0%)
Other costs - earthquake	-	(0.6)	100.0%
Income tax expense	-	-	-
Net surplus after taxation	85.6	24.3	252.3%

Final Dividend	-	-	N/A
Dividend Payment Date	N/A		

Group Operating Performance

	UNAUDITED	UNAUDITED	Percentage Change
	31 December 2021 (NZ\$million)	31 December 2020 (NZ\$million)	
Freight	222.8	191.9	16.1%
Interislander	49.1	61.1	(19.6%)
Property	29.5	27.6	6.9%
Scenic	4.0	6.0	(33.3%)
Other	11.3	9.8	15.3%
Funding from the National Land Transport Fund	60.5	-	100.0%
Networks	31.5	30.1	4.7%
Holidays Act Remediation Appropriation	-	27.9	(100.0%)
Total operating revenue	408.7	354.4	15.3%

Outlook for the next 6 months

We anticipate trading conditions to remain challenging for the remainder of FY22 which will impact KiwiRail's ability to meet its FY22 financial targets. KiwiRail will continue to actively manage its performance and will remain focused on delivering capital projects and service delivery which are helping build a more resilient and flexible rail network for our customers and for New Zealand, and which will help improve our returns in the longer term.

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