KiwiRail

NEW ZEALAND RAILWAYS CORPORATION

Results for announcement to the market – 28 February, 2012
Reporting Period: 6 months to 31 December 2011
Previous Reporting Period: 6 months to 31 December 2010

	UNAUDITED	**UNAUDITED**	
	31 December 2011 ($000s)	**31 December 2010 ($000s)**	**Percentage change**
Operating Revenue	$ 349,008	$332,109	5.1 %
Operating Expenses	($305,500)	($282,679)	(8.1%)
Operating Profit before depreciation and Grant Income (EBITDA)	**$43,508**	**$49,430**	**(12.0%)**
Depreciation and amortisation	($155,398)	($137,677)	(12.9%)
Net Finance Costs and foreign exchange losses	($17,665)	($21,591)	18.2%
Taxation (expense)/credit	$11,135	($1,691)	758.5%
Net deficit after tax	**($118,420)**	**($111,529)**	**(6.2%)**
Grant Income	$72,693	$202,319	(64.1%)
Net deficit after tax including Grant Income	**($45,727)**	**$90,790**	**(150.4%)**
Final Dividend	**-**	**-**	**-**

The Operating Profit before depreciation and Grant income (effectively EBITDA) has decreased from $49.4m for the six months ended 31 December 2010 to $43.5m for the period ended 31 December 2011, a 12.0% decrease. This result displays strong rail freight growth offset by trading and operating challenges in the balance of our business. In addition to this we are very pleased with our project performance on the Auckland and Wellington metro upgrades. Much of this is nearing completion and is within one percent of budget, and on agreed timetable.

- Our freight business, including the infrastructure it runs on, continues to perform well, with an increase in tonnage and revenue. EBITDA of the freight and infrastructure business has increased by $8.5m over the comparable period last year.
- Tranz Metro EBITDA changed as a result of the agreement between Greater Wellington Regional Council (GWRC), Government and KiwiRail during the year when a large number of assets were transferred to GWRC.

- The reduction in the Interislander EBITDA was primarily due to the planned increase in costs to cover for the Aratere while she was being extended.
- The Tranz Scenic business continues to be impacted by the Christchurch earthquakes and the associated reduction in tourism demand with EBITDA $2.5 million lower than the same period last year.
- Net Finance costs (includes foreign exchange gains and losses and interest costs) have decreased due to foreign exchange gains in the period offsetting increased interest charges on locomotive debt taken out during the 2011 financial year.
- Depreciation charges have increased as a result of capital expenditure over the last year.
- The decrease in Grant income from the comparative period reflects the Wellington and Auckland rail development projects drawing to a close, as well as timing in the Auckland rail development projects completion.

Operating Revenue

	UNAUDITED	**UNAUDITED**	
	31 December 2011 ($000s)	**31 December 2010 ($000s)**	**Percentage change**
Freight			
Bulk	$84,975	$77,393	9.8%
Domestic	$53,642	$50,122	7.0%
Import/Export	$61,061	$54,422	12.2%
Other	$21,652	$17,826	21.5%
Total Freight	$221,330	$199,763	10.8%
Interislander	$57,139	$ 55,750	2.5%
Tranz Scenic	$9,934	$ 11,784	(15.7%)
Tranz Metro	$23,685	$ 32,465	(27.0%)
Mechanical	$6,019	$4,493	34.0%
Infrastructure	$15,510	$12,203	27.1%
Property & Corporate	$15,391	$15,651	(1.7%)
Operating Revenue	**$349,008**	**$332,109**	**5.1%**

- Import-Export volume growth of 16 percent is primarily due to strong export dairy demand. We were also tested and responded well to an increase in ship diversions to different ports.
- The Bulk business, including forestry, increased revenue by $7.5million and volumes by 5.3 percent. This was again a result of the highly productive dairy season and the continued demand from China for our forestry products.
- While Domestic revenue increased by seven percent over the prior half year, volumes have remained static. Freight to Christchurch is lower reflecting the spike that followed the September 2010 earthquake compounded by a flat peak this year. Fuel recovery was the main driver of the revenue increase which of course also increased costs.

- Tranz Metro operating revenue is down $8.8m (27.0%) on the comparative period due to the change in funding arrangements with GWRC effective 1 July 2011.

Comparison with Statement of Corporate Intent and Outlook

The Statement of Corporate Intent targeted Operating Revenue of $737.0m for the financial year to June 2012. For the first half of the year the group is within 2% ($6.9m) of the year to date target of $355.9m. Note, this half year target was $23.89m (or 7%) higher than the result for the comparative period.

The Statement of Corporate Intent has a full year EBITDA target of $139.5m.

Despite solid EBITDA growth in the core business of Freight and Network over the prior year, we expect KiwiRail's EBITDA for the full year to be in the $105 - $115m range, due to a continuation of the challenges experienced in the first six months.

Other key performance indicators are largely progressing as outlined in the Statement of Corporate Intent.

Dividend Payment

Consistent with the Statement of Corporate Intent, KiwiRail will not pay a dividend in 2012.