Results for announcement to the market – 29 August, 2014
Reporting Period: 12 months to 30 June 2014
Previous Reporting Period: 12 months to 30 June 2013

	AUDITED 30 June 2014 (NZ$million)	UNAUDITED 30 June 2013 (NZ$million)	Percentage change
Operating revenues	723.6	727.0	(0.5%)
Operating expenses	(648.3)	(618.8)	(4.8%)
Operating surplus before major one-off items	**75.3**	**108.2**	**(30.4%)**
Major one-off items	2.2	0.0	-
Net operating surplus	**77.5**	**108.2**	**(28.4%)**
Depreciation and amortisation	(69.7)	(61.9)	(12.7%)
Net finance costs and foreign exhange gains and losses	(10.7)	(3.4)	(214.7%)
Impairments and asset valuation changes	(338.5)	(399.3)	15.2%
Grant income	93.4	181.7	(48.6%)
Taxation (expense)/credit	0.0	0.0	-
Net profit/(loss) after taxation	**(248.0)**	**(174.7)**	**-**
Operating cash flow	**67.1**	**77.0**	**(12.9%)**
Total Assets	922.7	1,009.6	(8.6%)
Final Dividend	-	-	-
Dividend Payment Date	N/A		

After four years of steady revenue and operating earnings growth, a number of material operating issues in 2014 significantly impacted KiwiRail's earnings. With the support of our customers and the wider KiwiRail team revenue, was held in line with 2013 as we dealt with these issues. The costs to maintain our services, however, were significant and account for much of the poorer operating earnings outcome of $77.5m, some $31m lower than 2013.

The loss of the Interislander ship, Aratere, due to a propeller shaft failure in November occurred as we were entering the peak of the season. While we moved swiftly to charter a replacement vessel to commence service early January 2014, this event still resulted in revenue loss over that peak period, most significantly our passenger revenue, in addition to increased costs associated with the charter.

Early in 2014 we detected asbestos in our fleet of DL locomotives. As safety of our staff was our immediate concern, we suspended this class of locomotive from service. We were able to prioritise services to meet our critical freight demand, but with 40 of our most powerful locomotives out of service there was a negative impact on earnings and costs.

KiwiRail does not take these service failures lightly. In each case we have established thorough investigation processes as to why these occurred. Wherever possible, we will pursue compensation if evident our suppliers or advisors have not provided the quality we require to meet our customer standards.

We have delivered improvements in the business in the following areas:

- Total harm reduced 45% from the prior year. We have established a new position of General Manager Zero Harm reporting directly to the Chief Executive to further drive our safety initiatives and performance across the business.
- Passenger numbers, reliability and punctuality in our Tranz Metro business have all increased.
- Profitability has improved in Scenic Journeys with revenue increasing and costs well controlled.
- We have invested in systems to manage train capacity and tonnages to improve optimisation and utilisation of our train services.
- We have rolled out a programme to standardise our freight terminal operating procedures in order to deliver improved levels of service.
- The major Auckland Electrification Project is nearing completion with the infrastructure substantially completed during the financial year.
- The Crown's substantial investment is improving the quality of rail infrastructure. Two important measures, the track quality index and mainline derailments, both improved on the prior year. In addition, the investment in new wagons enables us to meet the demands of our customers.
- We have made good progress in our programme of seismic assessments for our buildings, although remediation work during the year impacted our costs.
- Through successful negotiations with our brokers and underwriters a satisfactory outcome was achieved in respect of our insurance claim settlement on the Christchurch earthquake event.

Note: due to the restructure of rail operations in 2012, FY13 information is provided for KiwiRail and New Zealand Railways Corporation combined so that performance information is comparable between the years.

Operating Performance

Overall revenue for the year ended 30 June 2014 is in line with prior year, but varies by business unit as follows:

	30 June 2014 (NZ$million)	30 June 2013 (NZ$million)	Percentage change
Freight	462.0	463.7	(0.4%)
Interislander	116.6	124.3	(6.2%)
Tranz Metro	52.6	50.1	4.9%
Scenic Journeys	21.0	20.0	4.8%
Infrastructure	35.2	35.1	0.3%
Property and Corporate	36.1	33.8	6.7%
Total operating revenues	**723.6**	**727.0**	**(0.5%)**

Freight's domestic business grew 7% on prior year with growth across a number of key customers which was pleasing given the Aratere outage. Bulk business was down 5% reflecting lower volumes of milk and coal. Import/export goods were 2% lower than prior year with the key impact being changes in shipping service schedules from Tauranga to Auckland. Forestry was down 1% on prior year likely as a result of falling commodity prices.

Interislander's commercial freight revenue was $1.7m up on prior year, a strong performance given the reduced capacity. Maintaining this volume was a critical reason for chartering the Stena Alegra while the Aratere was out of service. The greatest impact, however, was on passenger revenue, down $9.2m on prior year.

We are pleased with the performance of the Wellington Tranz Metro business. Fare box revenue was up 7% with higher passenger numbers and on time performance for the year was 94%.

Scenic Journeys achieved a 5% increase in passenger numbers resulting in improved revenue and earnings. A strong performance for its charter services, linked to cruise ship visits, also assisted their result.

Property revenues improved on prior year benefiting from increases in both lease yields and cost recoveries.

Our operating costs increased $45m (7%) on prior year. The most material of these included the charter of the replacement ship to cover the Aratere while she was out of service and increased operational costs to move freight on the ships as the rail deck capacity was reduced. Operating costs were also impacted by higher levels of maintenance activity rather than capital projects in the infrastructure business and costs associated with building seismic assessments and remediation.

Our net profit also reflects:

- Higher depreciation due to capital expenditure during the year.
- Lower impairments due to lower capital expenditure on infrastructure in the year.
- Reduced grant income resulting from lower levels of grant funded capital expenditure, particularly on the major metro projects.

Our cash flow from operating activities was down $10m on prior year. Improved working capital management and lower interest costs partially offset the impact of our lower operating surplus.

Major One-off Items

A number of significant one-off items, that are not part of our normal trading result have been highlighted. These include the insurance recovery we received in respect of claims for damage to our buildings and infrastructure from the 2011 Christchurch earthquake, the direct costs of running the Stena Alegra (mainly the charter cost), and the costs associated with remediating the DL locomotives.

Key Non-Operating Items

As with the prior year, the impairment reflects our requirement to value assets on a commercial basis. Each year, in accordance with accounting standards, we review the carrying value of assets against their market value and commercial value in the business. Their commercial value is derived from the net cash flow attributed to the segment (technically the "Cash Generating Unit") of the business to which they relate. Where the cash flows do not support a higher value, the asset must be impaired to their market value which is established by an independent valuer. Importantly, this means a large proportion of network renewal capital expenditure is impaired each year as we spend more on capital projects than is generated from our operating surplus. This will continue to be the case until the business becomes cash self-sustaining.

Comparison with Statement of Corporate Intent (SCI)

Both operating revenues and operating profit were materially down on our SCI targets (by $41m and $43m respectively). The reasons for this are consistent with the previously described issues.

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