



MEDIA STATEMENT

For immediate release

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Freight growth continues but decrease in full year results forecast

KiwiRail's core business of rail freight has experienced an 11 percent increase in revenue to over \$220 million contributing to an overall business revenue increase of over five percent for the half year. The stand-out performer for freight was the Import Export (IMEX) division which recorded an increase in volume of 16 percent and a revenue increase of over 12 percent to over \$61 million.

According to Chairman John Spencer, while this outcome is encouraging, there has been a reduction in EBITDA due to lower results from other parts of the business.

"While the overall result is disappointing, the most important fact is we are still achieving solid and ongoing growth from our rail freight business," said Mr Spencer.

"But we have a real challenge with other parts of the business, particularly passenger, Interislander and Workshops, bringing down our overall result. This is due to different factors including the sluggish economy and the ongoing effect of the Christchurch earthquakes, but we are focused on improving this performance by taking a hard look at our costs and investment priorities."

KiwiRail has reported an increase in operating revenue of almost \$17 million on the corresponding six months, up from \$332 million in 2010 to almost \$350 million. But the operating profit before depreciation and grant income of \$43.6 million result (effectively EBITDA) was almost \$6 million lower than the previous period.

"Direct comparison to the previous period is difficult as we did receive a revenue boost for freight and Interislander as a result of the September 2010 Christchurch earthquake," said Mr Spencer.

"But despite this the EBITDA result is still unsatisfactory, and while we expect our full year revenue result to be in line with our Statement of Corporate Intent (SCI) targets, we are forecasting our full year EBITDA result to be in the range of \$105 to \$115 million, compared to the \$139.5 million target."

Depreciation of over \$155 million (\$137.7m in 2010) reflects our increased recent investments and has had a significant effect, contributing to a net deficit after tax of \$118.4 million.

"As announced last year we are reviewing our asset valuation methodology and structure to help alleviate this issue. We are still working through the final details and expect completion by the end of this financial year."

Business unit results

Bulk, domestic and import-export freight, carried on the rail network and across Cook Strait represents more than sixty percent of KiwiRail's revenue. The increase in freight revenue is due to both business growth and fuel price recoveries.

Revenue has continued to increase in the bulk and import-export sectors, but remained static for domestic. In the first six months of this financial year bulk freight revenue increased by almost 10% due to the highly productive dairy season and continued demand for forestry products.

"The import-export volume growth of 16 percent reflects a lift in volumes from a range of customers, but in particular export dairy. We expect the growth in this segment of the freight business to continue as we add more rolling stock capacity and customers," said Mr Spencer.

"Domestic freight business is flat across the whole country, particularly the reduced demand from Christchurch."

"We, like many others in the transport industry, hope this business increases once the Christchurch re-build gathers momentum."

The other parts of the KiwiRail business have experienced different issues that have impacted on their expected revenue results.

"While Interislander did increase its revenue, the planned increase in costs associated with the Aratere stretch project has led to a reduction in the business' EBITDA result," said Mr Spencer.

"As we announced last year the original budget for this project is expected to be exceeded by at least \$10 million. We are still finalising the total cost with the suppliers and we expect this will be concluded before the end of this financial year."

"Now that the ship is in full service and performing well we expect to see the benefits of greater freight and passenger carrying capacity to flow into the business over the next few years."

The KiwiRail passenger business consists of the Wellington TranzMetro passenger commuter service and the long distance TranzScenic business.

"The TranzMetro business, while recording an increase in passenger numbers, has had a reduction in EBITDA due to the transfer of a large number of assets to Greater Wellington Regional Council."

"The tourism focused TranzScenic business continues to be impacted by the Christchurch earthquakes and the subsequent major downturn in the region's tourism market."

Mr Spencer said that while we are still pursuing partnership options for TranzScenic, we are taking a closer look at the individual services and how their performance can be improved.

"For example the Overlander business should not be impacted by the situation in Christchurch, but revenue year on year is still falling and we are investigating what changes could be made to reverse this trend," he said.

Outlook

Mr Spencer said that while the continued freight growth is encouraging and we expect that to continue, the performance of other parts of the business will need to be closely monitored.

"We have to implement tighter cost controls, particularly in those parts of the business being impacted by ongoing issues such as the soft economy and the fall in South Island tourism," he said.

"We will also be making a final decision on the minor lines review and focusing on how we can address the future viability of the Workshops business by reducing costs and improving productivity."

Performance summary

	UNAUDITED	UNAUDITED	
	31 December 2011 (\$000s)	31 December 2010 (\$000s)	Percentage change
Operating Revenue	NZ\$ 349,008	NZ\$ 332,109	5.1 %
Operating profit before depreciation and grant income (EBITDA)	NZ\$ 43,508	NZ\$ 49,430	(12.0%)
Profit from ordinary activities after tax	NZ\$ (45,727)	NZ\$ 90,790	(150.4%)

ENDS

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