New Zealand
**Railways Corporation**

# HALF-YEARLY REPORT

1 JULY 2015 - 31 DECEMBER 2015

Cover photo: Brendon O'Hagan
Photo page 3: KiwiRail

# Contents



# Chairman's Report

I am pleased to present this half-yearly report for the New Zealand Railways Corporation ("**Corporation**") for the six months ended 31 December 2015.

In the six months ended 31 December 2015, the Corporation continued to support the creation of a sustainable rail business in New Zealand.

As set out in its Statement of Corporate Intent, the Corporation holds the rail estate on behalf of the Crown. It is not expected to derive any return from the land and is not expected to operate a rail business. It continues to lease the rail estate to KiwiRail Limited a wholly owned subsidiary of KiwiRail Holdings Limited ("**KiwiRail**") for nominal consideration, to enable KiwiRail to enjoy the commercial benefit of the land and support the Crown's investment in rail operations as a whole. The lease to KiwiRail was renewed in June 2014, meaning that KiwiRail now has a secure leasehold tenure over the rail estate until the end of 2070.

To minimise costs and avoid duplication of work with KiwiRail, there is a Management Agreement under which KiwiRail provides corporate and administrative services to the Corporation for a nominal charge. The unaudited half-yearly financial statements attached to this report show that the Corporation's operating costs have been fully offset by the charge payable by KiwiRail in accordance with the Management Agreement.

Excluding timing differences, year to date operating costs are generally in line with budget.

KiwiRail has entered into the statutory process under the Deed of Settlement with the Port Nicholson Block Settlement Trust in relation to the sale of Wellington Railway Station. The Corporation is monitoring KiwiRail's progress and will consider its recommendations to the Minister in relation to any disposals at the relevant time.

John Spencer

**John Spencer CNZM**, Chairman

# Statement of Financial Performance

For the six months ended 31 December 2015

| | Note | 6 months ended 31 Dec 2015 (Unaudited) | 6 months ended 31 Dec 2014 (Unaudited) | Year ended 30 June 2015 (Audited) |
|---|---|---|---|---|
| | | $000 | $000 | $000 |
| Operating revenues | 2 | 24 | 19 | 112 |
| Operating expenses | 3 | (24) | (19) | (112) |
| **Operating surplus** | | **-** | **-** | **-** |
| Depreciation and amortisation expense | | (157) | (726) | (1,452) |
| Net gain/(loss) on sale and purchase of land | 4 | 190 | 6 | 4,631 |
| **Net gain(loss)** | | **33** | **(720)** | **3,179** |

# Statement of Comprehensive Revenue and Expense

For the six months ended 31 December 2015

| | Note | 6 months ended 31 Dec 2015 (Unaudited) | 6 months ended 31 Dec 2014 (Unaudited) | Year ended 30 June 2015 (Audited) |
|---|---|---|---|---|
| | | $000 | $000 | $000 |
| **Net gain/(loss)** | | **33** | **(720)** | **3,179** |
| **Other comprehensive revenue and expense** | | | | |
| Revaluation of Property & Plant and Equipment | | - | - | 119,531 |
| Vesting of assets and liabilities | | - | (184) | - |
| **Total comprehensive revenue and expense** | | **33** | **(904)** | **122,710** |

The accompanying notes form part of these financial statements.

New Zealand Railways Corporation

# Statement of Financial Position

As at 31 December 2015

| | Note | 6 months ended 31 Dec 2015 (Unaudited) | 6 months ended 31 Dec 2014 (Unaudited) | Year ended 30 June 2015 (Audited) |
|---|---|---|---|---|
| | | $000 | $000 | $000 |
| **Current assets** | | | | |
| Cash and cash equivalents | | 7 | 1 | 1 |
| Trade receivables | | 14 | - | - |
| Goods and services tax receivable | | 1 | - | 7 |
| Assets held for sale | | - | - | 17,414 |
| | | **22** | **1** | **17,422** |
| **Non-current assets** | | | | |
| Property, plant and equipment | 5 | 3,363,502 | 3,270,650 | 3,363,486 |
| | | **3,363,502** | **3,270,650** | **3,363,486** |
| **TOTAL ASSETS** | | **3,363,524** | **3,270,651** | **3,380,908** |
| **Current liabilities** | | | | |
| Trade and other liabilities | | 22 | 1 | 8 |
| | | **22** | **1** | **8** |
| **Equity** | | | | |
| Equity capital | | 1,532,446 | 1,532,446 | 1,532,446 |
| Retained earnings | | (1,398,395) | (1,397,544) | (1,380,997) |
| Asset revaluation reserve | | 3,229,451 | 3,135,748 | 3,229,451 |
| | | **3,363,502** | **3,270,650** | **3,380,900** |
| **TOTAL LIABILITIES AND EQUITY** | | **3,363,524** | **3,270,651** | **3,380,908** |

**John Spencer**
Chairman
24 February 2016

**Sharon Shea**
Director
24 February 2016

The accompanying notes form part of these financial statements.

# Statement of Changes in Equity

For the six months ended 31 December 2015

| | Equity Capital | Retained Earnings | Asset Revaluation Reserve | Total |
|---|---|---|---|---|
| | $000 | $000 | $000 | $000 |
| **As at 1 July 2014 (Audited)** | **1,532,446** | **(1,396,640)** | **3,135,748** | **3,271,554** |
| Net loss for the period | - | (720) | - | (720) |
| **Other comprehensive revenue and expense** | | | | |
| Release of revaluation reserve to retained earnings | - | (184) | - | (184) |
| **Total comprehensive revenue and expense** | **-** | **(904)** | **-** | **(904)** |
| **As at 31 December 2014 (Unaudited)** | **1,532,446** | **(1,397,544)** | **3,135,748** | **3,270,650** |
| Net surplus for the period | - | 3,899 | - | 3,899 |
| **Other comprehensive revenue and expense** | | | | |
| Revaluation of property, plant and equipment | - | - | 119,531 | 119,531 |
| Release of revaluation reserve to retained earnings | - | 26,012 | (25,828) | 184 |
| **Total comprehensive revenue and expense** | - | **29,911** | **93,703** | **123,614** |
| **Transactions with owners** | | | | |
| Sale and purchase of NZRC land | - | (13,364) | - | **(13,364)** |
| **As at 30 June 2015 (Audited)** | **1,532,446** | **(1,380,997)** | **3,229,451** | **3,380,900** |
| Net surplus for the period | - | 33 | - | 33 |
| **Other comprehensive revenue and expense** | | | | |
| Vesting of assets and liabilities | - | - | - | - |
| **Total comprehensive revenue and expense** | **-** | **33** | **-** | **33** |
| **Transactions with owners** | | | | |
| Sale and purchase of NZRC land | - | **(17,431)** | - | **(17,431)** |
| **As at 31 December 2015 (Unaudited)** | **1,532,446** | **(1,398,395)** | **3,229,451** | **3,363,502** |

The accompanying notes form part of these financial statements.

# Statement of Cash Flows

For the six months ended 31 December 2015

| | 6 months ended 31 Dec 2015 (Unaudited) | 6 months ended 31 Dec 2014 (Unaudited) | Year ended 30 June 2015 (Audited) |
|---|---|---|---|
| | $000 | $000 | $000 |
| **Cash flows from operating activities** | | | |
| *Proceeds from:`* | | | |
| Receipts from customers from non-exchange transactions | 30 | 19 | 112 |
| *Proceeds utilised for:* | | | |
| Payments to suppliers and employees | (24) | (19) | (112) |
| **Net cash flow from operating activities** | **6** | **-** | **-** |
| **Cash flows from investing activities** | | | |
| *Proceeds from:* | | | |
| Sale and swap of property, plant and equipment | 17,431 | - | 13,429 |
| *Proceeds utilised for:* | | | |
| Purchase of property, plant and equipment | - | - | (65) |
| **Net cash flow from investing activities** | **17,431** | **-** | **13,364** |
| **Cash used in financing activities** | | | |
| *Proceeds from:* | | | |
| Increase in equity | - | - | 65 |
| *Proceeds utilised for:* | | | |
| Reduction in equity | (17,431) | - | (13,429) |
| **Net cash used in financing activities** | **(17,431)** | **-** | **(13,364)** |
| **Net increase/(decrease) in cash and equivalents** | **6** | **-** | **-** |
| **Cash and cash equivalents at the beginning of the period** | **1** | **1** | **1** |
| **Cash and cash equivalents at the end of the period** | **7** | **1** | **1** |

The accompanying notes form part of these financial statements.

# Notes to the Financial Statements



## 1. CORPORATION INFORMATION

### (a) REPORTING ENTITY

New Zealand Railways Corporation (the Corporation) is a statutory corporation established pursuant to the New Zealand Railways Corporation Act 1981 and is included within the First Schedule of the State Owned Enterprises Act 1986. The Corporation is designated as a Public Sector Public Benefit Entity (PBE) defined as “a reporting entity whose primary objective is to provide goods and services for community or social benefit and where equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders”.

The primary objective of the Corporation is to make available approximately 18,000 hectares of railway land to KiwiRail Holdings Group to enjoy the commercial benefit of the land for nominal consideration.

The financial statements are for the six-months ended 31 December 2015 and were authorised for issue by the Board of Directors on 24 February 2016.

### (b) BASIS OF PREPARATION

**Statement of compliance**

The Corporation’s financial information is prepared in accordance with New Zealand Generally Accepted Accounting Practice as appropriate for Public Sector PBEs reporting under Tier 2 of the PBE Standards. The Corporation does not have public accountability and is not large as defined in the Accounting Standards Framework of the External Reporting Board.

The financial information also complies with the New Zealand Railways Corporation Act 1981 and the State-Owned Enterprises Act 1986.

The financial statements have been prepared on a historical cost basis, except for land and buildings which are measured at fair value.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($000) unless otherwise stated.

**Changes in accounting policies**

These financial statements are prepared under the PBE Standards. Previously the Corporation has adopted New Zealand equivalents to the International Financial Reporting Standards (NZ IFRS) applicable to PBEs. Except for some terminologies and disclosure requirements, there are no notable difference between NZ IFRS applicable to PBEs and the PBE Standards that are relevant to the Corporation. As such there have been no material changes in accounting policies during the period. The interim report should be read in conjunction with the Annual Report for the year ended 30 June 2015.

### (c) GOING CONCERN

The financial statements are prepared on a going concern basis. Management is not aware of any material uncertainties that may cast significant doubt on the Corporation’s ability to continue as a going concern.

## 2. OPERATING REVENUE

| | 6 months ended 31 Dec 2015 (Unaudited) | 6 months ended 31 Dec 2014 (Unaudited) | Year ended 30 June 2015 (Audited) |
|---|---|---|---|
| | $000 | | $000 |
| Operating revenues from non-exchange transactions | 24 | 19 | 112 |
| **Total operating revenue** | **24** | **19** | **112** |

Operating revenue consists solely of management fees charged to KiwiRail Holdings Limited under the Management Agreement. In accordance with the Management Agreement any operating costs incurred by the Corporation are charged to KiwiRail Holdings Limited as management fees, such that the Corporation makes no operating surplus or loss.

*Revenue recognition*
Revenue is measured at the fair value of the consideration received or receivable by the Corporation and represents amounts receivable for goods and services provided in the normal course of business once significant risk and rewards of ownership have been transferred to the buyer.

## 3. OPERATING EXPENSES

| | 6 months ended 31 Dec 2015 (Unaudited) | 6 months ended 31 Dec 2014 (Unaudited) | Year ended 30 June 2015 (Audited) |
|---|---|---|---|
| | $000 | $000 | $000 |
| Lease and rental costs | - | - | 2 |
| Incidents, casualties and insurance | 10 | - | 22 |
| Fees paid to auditors: Audit fees | 4 | - | 16 |
| Directors' fees | 9 | - | 18 |
| Professional fees | - | 9 | 53 |
| Other expenses | 1 | 10 | 1 |
| **Total operating expenses** | **24** | **19** | **112** |

The numbers in the Notes to the Financial Statements are expressed in thousands unless otherwise stated.

## 4. SALE AND PURCHASE OF LAND

From time to time the Corporation may sell parcels of railway land. Under the lease agreement with KiwiRail Holdings Limited (the Group) entered into on 31 December 2012, the Group may identify railway land that should be sold and request the Corporation to sell it or surrender it from the lease. The sale proceeds are provided to the Group to support its business as the SOE responsible for the financial performance of the Crown's investment in rail operations. The Corporation may incur an accounting loss following a sale of railway land because the value of the land is in the Corporation's asset base.

Where land has previously been revalued any gain or loss is based on the valuation and any revaluation reserve relating to the land sold is released through the Statement of Changes in Equity.

Similarly, the Group can identify new parcels of land that are required for rail purposes. The Group will fund the acquisition of the land and can transfer it to the Corporation to be included within the lease.

The sale and purchase of land are treated as common control transactions as the Crown is the ultimate parent of the Group and the Corporation. The sale of the Corporation's land and the transfer of the proceeds is regarded as a reduction in equity of the Corporation whilst the Group's acquisition of land for the Corporation is treated as an increase in equity of the Corporation.

The following represents the financial impact of land sold and purchased after the vesting date which impacts the current financial year.

| | 6 months ended 31 Dec 2015 (Unaudited) | 6 months ended 31 Dec 2014 (Unaudited) | Year ended 30 June 2015 (Audited) |
|---|---|---|---|
| | $000 | $000 | $000 |
| Net proceeds from land sold | (17,431) | - | (13,245) |
| Net proceeds from land swap | | | |
| Land given up | - | - | (409) |
| Land acquired | - | - | 305 |
| Net | - | - | 184 |
| Cost of land acquisitions | - | - | 65 |
| **Net impact of sale and purchase of land charged to equity** | **(17,431)** | **-** | **(13,364)** |

| | 6 months ended 31 Dec 2015 (Unaudited) | 6 months ended 31 Dec 2014 (Unaudited) | Year ended 30 June 2015 (Audited) |
|---|---|---|---|
| | $000 | $000 | $000 |
| Carrying value of land sold | (17,241) | (36) | (8,614) |
| Carrying value given up from land swap | | - | (489) |
| Land purchased by KRL transferred to NZRC | - | 42 | - |
| Net proceeds from sale of land | 17,431 | - | 13,734 |
| Net gain/(loss) on sale and purchase of land recognised in Statement of Financial Performance | **190** | **6** | **4,631** |
| Release of revaluation reserve | - | - | 8,863 |
| Net gain/(loss) on original cost | **190** | **6** | **13,494** |

The numbers in the Notes to the Financial Statements are expressed in thousands unless otherwise stated.

## 5. PROPERTY, PLANT AND EQUIPMENT

| Land and Buildings | 31 December 2015 (Unaudited) | 31 December 2014 (Unaudited) | 30 June 2015 (Audited) |
|---|---|---|---|
| | $000 | $000 | $000 |
| Cost | 3,363,659 | 3,274,209 | 3,363,486 |
| Accumulated Depreciation | (157) | (3,559) | - |
| **Net Book Value** | **3,363,502** | **3,270,650** | **3,363,486** |

(i) Recognition and Measurement

Property, plant and equipment is recognised on purchase or construction at cost and is subsequently revalued on a class basis to fair value. The Corporation holds two types of assets, land and buildings, which are held under one asset class.

Where an asset is acquired for nil or nominal consideration the asset is recognised initially at fair value. Revenue from the non-exchange transaction measured as the amount of the increase in net assets recognised by NZRC is recognised in surplus or deficit.

(ii) Revaluation

Land and buildings are revalued with sufficient regularity to ensure that the carrying amount does not differ materially from fair value. Fair value is determined from market-based evidence by an external, independent valuer. Valuations are undertaken in accordance with the standards issued by the New Zealand Property Institute with the following bases of valuation adopted:

- Rail corridor – land associated with the rail corridor is valued based on adjacent use ('across the fence'), as an approximation of fair value.
- Non-specialised land and buildings which could be sold with relative ease are valued at market value.

Any revaluation increase arising on the revaluation of land and buildings is credited to the revaluation reserve of the asset class. If a revaluation decrease for the same asset class was previously recognised in surplus or deficit, the revaluation increase should be recognised as a credit to surplus or deficit up to the extent of the decrease previously charged. Any excess is credited to the revaluation reserve of the asset class.

A decrease in carrying amount arising on the revaluation of a class of asset is charged as an expense to the surplus or deficit to the extent that it exceeds the balance, if any, held in the asset class revaluation reserve relating to a previous revaluation of that class of asset.

Other additions between revaluations are recorded at cost.

Land and buildings are revalued every three years by Darroch Limited who are independent valuers and have relevant qualifications and experience. The last revaluation was carried out as at 30 June 2015.

As at 31 December 2015, the total fair value of land and building is $3,363,502,000.

(iii) De-recognition

Realised gains and losses arising from de-recognition of property, plant and equipment are recognised in the surplus or deficit in the period in which the transaction occurs. The gain or loss is calculated as the difference between the carrying amount of the asset and the net disposal proceeds received (if any). Any balance attributable to the derecognised asset in the asset revaluation reserve is transferred to retained earnings.

(iv) Depreciation

Depreciation is charged on a straight line basis at rates that will allocate the cost or valuation of the asset over its expected useful life to its estimated residual value. In determining an asset's useful life, consideration is given to its expected usage, its expected wear and tear, technical or commercial obsolescence, and legal or similar limits on its use.

Depreciation is provided on buildings with a useful life of 55 years and is charged to surplus or deficit. Land is not depreciated.

The numbers in the Notes to the Financial Statements are expressed in thousands unless otherwise stated.

(v) Impairment of non-financial assets

The carrying amounts of the Corporation's non-financial assets are reviewed at each reporting date to determine if there is any indication of impairment. For land that is identified to be contaminated the asset will be tested for impairment by comparing its recoverable service amount to its carrying amount. The recoverable service amount of an asset is the higher of its value in use and its fair value less costs to sell.

The Corporation uses the restoration cost approach to determine the asset's value in use.

If an asset's carrying amount exceeds its recoverable service amount the asset is impaired and the carrying amount is written down to the recoverable amount.

## 6. ASSETS HELD FOR SALE

Where an asset's carrying amount is to be recovered through a sale transaction rather than continuing use it is classified as held for sale and separately identified as a current asset on the Statement of Financial Position. Assets held for sale are held at the lower of their carrying amount and fair value less costs to sell. Assets held for sale are not depreciated.

As at 31 December 2015, assets held for sale are nil (30 June 2015: $17,414,000) and are reflected at fair value less cost to sell.

## 7. LEASE COMMITMENTS

**Operating lease commitments as lessor**

Operating leases are defined as leases under which substantially all the risks and rewards of ownership of the applicable asset or assets remain with the lessor. Operating lease payments and receipts are recognised in the surplus or deficit in accordance with the pattern of benefits derived or received.

The Corporation has, along with the Crown, granted a long-term lease (the "Core Lease") to KiwiRail Limited (KRL), a company in the KiwiRail Holdings Limited Group, for nominal consideration, under which KRL can enjoy the commercial benefit of the land. KRL has primary responsibility for administering the land. Under the Core Lease it can undertake many activities in relation to the land without requiring the consent or involvement of NZRC.

NZRC does not have any other operating lease commitments as lessor at 31 December 2015 (30 June 2015: nil).

## 8. CAPITAL AND OTHER COMMITMENTS

The Corporation has no commitments for capital purchases at 31 December 2015 (30 June 2015: nil).

## 9. RECONCILIATION OF NET LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES

| | **6 months ended Dec 2015 (Unaudited)** | **6 months ended Dec 2014 (Unaudited)** | **Year ended June 2015 (Audited)** |
|---|---|---|---|
| | $000 | $000 | $000 |
| Net gain /(loss) | 33 | (720) | 3,179 |
| **Add / (deduct) items classified as investing or financing activities** | | | |
| (Profit)/loss on sale of assets | (190) | (6) | (4,631) |
| | (157) | (726) | (1,452) |
| **Add non-cash flow items** | | | |
| Depreciation and amortisation expense | 157 | 726 | 1,452 |
| **Net cash flows from operating activities** | **-** | **-** | **-** |

The numbers in the Notes to the Financial Statements are expressed in thousands unless otherwise stated.

## 10. RELATED PARTY TRANSACTIONS

**Significant transactions with government-related entities**

There were no capital or grant funds received during the current financial year (30 June 2015: nil).

The Corporation has received $24,000 in management fees from the Group representing reimbursement of the Corporation's expenses for the six months ended 31 December 2015 (30 June 2015: $112,000).

**Significant transactions with government-related entities**

For the six months ended 31 December 2015, the Corporation had no significant transactions, individually or collectively, with government-related entities (2015: nil).

**Transactions with key management personnel**

Key management personnel for the Corporation is defined as Directors. Key management personnel of the Corporation may be directors or officers of other companies or organisations with whom the Corporation may transact. Such transactions are all carried out independently on an arms' length basis. There were no such transactions during the six months ended 31 December 2015 (30 June 2015: nil).

There were no short term employee benefits, termination benefits or post-employment benefits paid to key management personnel for the six months ended 31 December 2015 (30 June 2015: nil).

**Employees' remuneration**

The Corporation does not have any employees.

**The Directors earned the following fees during the period:**

| | 6 months ended Dec 2015 (Unaudited) | 6 months ended Dec 2014 (Unaudited) | Year ended June 2015 (Audited) |
|---|---|---|---|
| | $000 | $000 | $000 |
| John Spencer | 3 | 3 | 6 |
| Rose Anne MacLeod | 2 | 3 | 6 |
| Paul East | 1 | 0 | 0 |
| Sharon Shea | 3 | 3 | 6 |
| **Total Director's fees** | **9** | **9** | **18** |

## 11. CONTINGENT LIABILITIES

(a) Treaty of Waitangi claims.
Claims lodged under the Treaty of Waitangi Act 1975, in respect of land and other assets currently or previously administered by the Corporation, have not been recognised in these financial statements. Since 1 July 1993 such claims are considered to be the responsibility of the Crown rather than that of the Corporation and administered by the Office of Treaty Settlements, Ministry of Justice. The outcome of these claims is uncertain at this stage and an estimate of financial effect is not practicable.

(b) Option to purchase Wellington Railway Station
A seismic review of the buildings was carried out in financial year 2014. Following the review, a significant amount of work relevant to seismic strengthening of the buildings is required. Remediation work has progressed in the last eighteen months and is expected to be completed during this financial year. Discussions are continuing with the Port Nicholson Block (Taranaki Whanui Ki Te Upoko O Te Ika) Settlement Trust, regarding the Trust's option to purchase the Wellington Railway Station building footprint and the social hall.

The numbers in the Notes to the Financial Statements are expressed in thousands unless otherwise stated.