

New Zealand
Railways Corporation

HALF YEAR REPORT

1 July 2013 - 31 December 2013



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Chairman's Report



John Spencer CNZM
Chairman

I am pleased to present this half-yearly report for the New Zealand Railways Corporation ("Corporation") for the six months ended 31 December 2013.

A restructure of the Crown's investment in rail operations took effect from 31 December 2012 and transferred the KiwiRail business into a new corporate group separate from the Corporation, leaving the Corporation holding railway land but no railway infrastructure assets. In the six months ended 31 December 2013, the Corporation has continued to settle into its new role in supporting the creation of a sustainable rail business in New Zealand.

As set out in its Statement of Corporate Intent, the Corporation is not expected to derive any return from the land and is not expected to operate a rail business. It continues to lease the railway land 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.

To minimise costs and avoid duplication of work with KiwiRail, the Corporation has also entered into 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. Year to date operating costs are generally in line with budget.

The unaudited half-yearly financial statements attached to this report also show that, during this period, an adjustment was made to recognise certain disposals of land prior to the restructure and that the depreciation of the Wellington Railway Station and social hall buildings has been charged, following the reclassification of those assets.

KiwiRail has advised that it is proceeding with the possible disposal of certain sites, including land at Parnell in Auckland and at Gracefield in Lower Hutt. In addition, KiwiRail is also proceeding with discussions with the Port Nicholson Block Settlement Trust in relation to the Wellington Railway Station and surrounding land. 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 CNZM, Chairman

STATEMENT OF FINANCIAL PERFORMANCE

For the financial period ended 31 December 2013

	Note	6 months ended Dec 2013 (Unaudited)	6 months ended June 2013 (Unaudited)	Year ended Dec 2012 (Unaudited)
		\$000	\$000	\$000
Operating revenue	1	31	31	89,116
Operating expenses	2	(31)	(31)	(70,308)
Operating surplus		-	-	18,808
Grant income	1	-	-	100,871
Depreciation and amortisation expense		(726)	(691)	(4,894)
Foreign exchange and commodity gains and losses		-	-	466
Finance income		-	-	7,367
Finance costs		-	-	(8,091)
Net gain / (loss) on sale of land	3	(444)	-	46
Impairment losses		-	-	(185,669)
Net loss		(1,170)	(691)	(71,096)

STATEMENT OF COMPREHENSIVE INCOME

For the financial period ended 31 December 2013

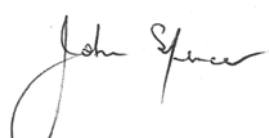
	6 months ended Dec 2013 (Unaudited)	6 months ended Jun 2013 (Unaudited)	Year ended Dec 2012 (Unaudited)
	\$000	\$000	\$000
Net loss	(1,170)	(691)	(71,096)
Other comprehensive (loss) / income			
<i>Items that can be reclassified into profit or loss:</i>			
Losses from Cash flow hedges	-	-	(1,982)
<i>Items that cannot be reclassified into profit or loss:</i>			
Transfers to asset carrying value from cash flow hedge reserve	-	-	797
Vesting of assets and liabilities to KiwiRail Holdings	-	-	(595,226)
Total comprehensive loss	(1,170)	(691)	(667,507)

The accompanying notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION

For the financial period ended 31 December 2013

	31 Dec 2013 (Unaudited)	30 June 2013 (Audited)
	\$000	\$000
Current assets		
Cash and cash equivalents	1	1
Trade and other receivables	-	-
	1	1
Non-current assets		
Property, plant and equipment	3,272,280	3,273,450
	3,272,280	3,273,450
TOTAL ASSETS	3,272,281	3,273,451
Current liabilities		
Trade and other liabilities	1	1
	1	1
TOTAL LIABILITIES	1	1
NET ASSETS	3,272,280	3,273,450
Equity		
Equity capital	1,532,446	1,532,446
Retained earnings	(1,395,915)	(1,395,026)
Asset revaluation reserve	3,135,749	3,136,030
TOTAL EQUITY	3,272,280	3,273,450



John Spencer, Chairman
17 February 2014



Rose Anne MacLeod, Director
17 February 2014

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY

For the financial period ended 31 December 2013

	Equity Capital	Retained Earnings	Asset Valuation Reserve	Cash Flow Hedge Reserve	Total
	\$000	\$000	\$000	\$000	\$000
As at 1 July 2012 (Audited)	1,046,946	(753,445)	3,164,289	(1,642)	3,456,148
Net loss for the period	-	(71,096)	-	-	(71,096)
Other comprehensive income					
<i>Items that can be reclassified into profit or loss:</i>					
Losses from cash flow hedges	-	-	-	(1,982)	(1,982)
<i>Items that cannot be reclassified into profit or loss:</i>					
Release of revaluation reserve to retained earnings	-	1,279	(1,279)	-	-
Transfer to asset carrying value from cash flow hedge reserve	-	-	-	797	797
Vesting of assets and liabilities to KiwiRail Holdings Limited	-	(571,073)	(26,980)	2,827	(595,226)
Total comprehensive income	-	(640,890)	(28,259)	1,642	(667,507)
Transactions with owners					
Capital Investment	163,000	-	-	-	163,000
Debt to Equity Conversion	322,500	-	-	-	322,500
As at 31 December 2012 (Unaudited)	1,532,446	(1,394,335)	3,136,030	-	3,274,141
Net loss for the period	-	(691)	-	-	(691)
Total comprehensive income	-	(691)	-	-	(691)
As at 30 June 2013 (Audited)	1,532,446	(1,395,026)	3,136,030	-	3,273,450
Net loss for the period	-	(1,170)	-	-	(1,170)
Other comprehensive income					
<i>Items that cannot be reclassified into profit or loss:</i>					
Release of revaluation reserve to retained earnings	-	281	(281)	-	-
Total comprehensive income	-	(889)	(281)	-	(1,170)
As at 31 December 2013 (Unaudited)	1,532,446	(1,395,915)	3,135,749	-	3,272,280

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS

For the financial period ended 31 December 2013

	6 months ended Dec 2013 (Unaudited)	6 months ended Jun 2013 (Unaudited)	Year ended Dec 2012 (Unaudited)
GROUP	\$000	\$000	\$000
Cash flows from operating activities			
<i>Proceeds from:</i>			
Receipts from customers	31	29	103,827
Interest received	-	-	7,367
<i>Proceeds utilised for:</i>			
Payments to suppliers and employees	(31)	(29)	(164,375)
Interest expense	-	-	(12,067)
Net cash from operating activities	-	-	(65,248)
Cash flows from investing activities			
<i>Proceeds from:</i>			
Sale of property, plant and equipment	-	-	2,187
Capital grant receipts	-	-	100,871
Repayment of loan from subsidiary	-	-	44,198
<i>Proceeds utilised for:</i>			
Purchase of property, plant and equipment	-	-	(190,182)
Vesting of cash balance to KiwiRail Holdings Limited	-	-	(64,936)
Net cash used in investing activities	-	-	(107,862)
Cash flows from financing activities			
<i>Proceeds from:</i>			
Crown capital injection	-	-	163,000
Finance lease	-	-	2,046
<i>Proceeds utilised for:</i>			
Repayment of borrowings	-	-	(1,448)
Net cash from financing activities	-	-	163,598
Net increase / decrease in cash and equivalents	-	-	(9,512)
Cash and cash equivalents at the beginning of the period	1	1	9,512
Effect of exchange rate fluctuations on cash held	-	-	1
Cash and cash equivalents at the end of the period	1	1	1

The accompanying notes form part of these financial statements

STATEMENT OF ACCOUNTING POLICIES

For the financial period ended 31 December 2013

REPORTING ENTITY

New Zealand Railways Corporation ("NZRC" or "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 domiciled in New Zealand. The Corporation has been designated as a Public Benefit Entity ("PBE").

On 31 December 2012, there was a restructure of the Crown's investment in rail operation. The KiwiRail Holdings Limited Vesting Order 2012 (Vesting Order) which took effect from 31 December 2012 transferred the KiwiRail business into a new corporate group separate from the Corporation, leaving the Corporation holding railway land and the Wellington Railway Station building but no railway infrastructure assets. After 31 December 2012 NZRC was no longer parent of the KiwiRail Group.

The Board of Directors have received a letter of comfort from the previous Board of the Corporation to support the figures presented in these financial statements for the six month period ending 31 December 2012.

The interim financial statements of NZRC are for the six months ended 31 December 2013 and were authorised for issue by the Board of Directors on 19 February 2013.

Primary Objective

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.

Prior to 31 December 2012 the primary objective of the Corporation was to establish, maintain and operate, or otherwise arrange for, safe and efficient rail, road and ferry freight and passenger transport services within New Zealand in such a way that revenue exceeds costs, including interest and depreciation; and to provide for a return on capital as specified by the Minister of Finance from time to time.

BASIS OF PREPARATION

Statement of compliance

The interim financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice and comply with the New Zealand Railways Corporations Act 1981, the State-Owned Enterprises Act of 1986 and New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable financial reporting standards as appropriate for public benefit entities.

These unaudited condensed Interim Financial Statements comply with *NZIAS34 Interim Financial Statements*.

Changes in accounting policies

There have been no material changes in accounting policies during the period. Accounting policies have been applied on a basis consistent with those used in previous periods. The interim report should be read in conjunction with the Annual Report for the year ended 30 June 2013.

STATEMENT OF ACCOUNTING POLICIES

For the financial period ended 31 December 2013

NEW STANDARDS ADOPTED

There were no new standards adopted for the financial period ended 31 December 2013.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following standards and amendments were available for early adoption but have not been applied by the Corporation in the preparation of these interim financial statements:

- *NZIFRS 9 Financial Instruments* (revised 2010) is the first standard issued as part of a wider project to replace NZIAS39 and is effective for reporting periods beginning on or after 1 January 2017. The revised standard simplifies the approach to classification and measurement of financial assets. It is not expected to have any impact on the financial results of the Corporation.

The following standards have been issued but are not yet effective for public benefit entities for the period ending 31 December 2013:

- *PBE Standards for Tier 1 Public Sector Entities* which comprise *Standard XRB A1 Accounting Standards Framework*, a suite of 39 PBE Standards and *The Public Benefit Entities (conceptual) Framework* are effective for reporting periods beginning on or after 1 July 2014. The new standards are not expected to have a significant impact on the financial results of the Corporation.

NOTES TO THE FINANCIAL STATEMENTS

For the financial period ended 31 December 2013

1. Total Income

	6 months ended Dec 2013 (Unaudited)	6 months ended Jun 2013 (Unaudited)	Year ended Dec 2012 (Unaudited)
	\$000	\$000	\$000
Operating revenues	31	31	89,116
Grant income	-	-	100,871
Total income	31	31	189,987

Operating revenue from 1 January 2013 onwards 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.

Prior to 31 December 2012 the Corporation received operating grants from the Crown for the purpose of maintaining the railway networks and infrastructure costs. There are no unfulfilled conditions or other contingencies attached. From 31 December 2012 the operating grants are received by KiwiRail Holdings Limited.

2. Operating Expenses

	6 months ended Dec 2013 (Unaudited)	6 months ended Jun 2013 (Unaudited)	Year ended Dec 2012 (Unaudited)
	\$000	\$000	\$000
Salaries and wages	-	-	17,615
Defined contribution plan employer contributions	-	-	442
Employee entitlements	-	-	1,848
Other employee expenses	-	-	352
Total staff costs	-	-	20,257
Materials and supplies	-	-	5,495
Fuel and traction electricity	-	-	26
Lease and rental costs	-	-	4,360
Incidents, casualties and insurance	-	21	4,274
Contractors expenses	-	-	26,450
Fees paid to auditors: Audit fees	16	-	126
Impairment of receivables	-	-	(132)
Directors' fees	9	9	162
Loss on disposal of property, plant and equipment	-	-	9
Other expenses	6	1	9,281
Total operating expenses	31	31	70,308

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial period ended 31 December 2013

3. Net Loss on Sale of Land

From time to time the Corporation may sell parcels of railway land. Under the lease agreement with KiwiRail Holdings Ltd entered into on 31 December 2012, KiwiRail Holdings Ltd 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 KiwiRail Holdings Ltd 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.

NZRC received the proceeds on any land sales prior to 31 December 2012.

There were no sales of land from 31 December 2012 to 30 June 2013. In the period ending 31 December 2013 adjustments were made to recognise prior period disposals of land with a total book value of \$444,000.

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.

	6 months ended Dec 2013 (Unaudited)	6 months ended Jun 2013 (Unaudited)	Year ended Dec 2012 (Unaudited)
	\$000	\$000	\$000
Carrying value of land sold	(444)	-	(2,136)
Proceeds received	-	-	2,182
Net gain/(loss) on sale of land recognised in Statement of Financial Performance	(444)	-	46
Release of revaluation reserve	281	-	2,065
Net gain/(loss) on original cost	(163)	-	2,111

4. Property, Plant and Equipment

	6 months ended Dec 2013 (Unaudited)	6 months ended Jun 2013 (Unaudited)	Year ended Dec 2012 (Unaudited)
	\$000	\$000	\$000
At 31 December 2013 (Unaudited)			
Cost	3,255,588	18,800	3,274,388
Accumulated Depreciation	-	(2,108)	(2,108)
Net Book Value	3,255,588	16,692	3,272,280
At 30 June 2013 (Audited)			
Cost	3,256,032	18,800	3,274,832
Accumulated Depreciation	-	(1,382)	(1,382)
Net Book Value	3,256,032	17,418	3,273,450

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial period ended 31 December 2013

5. Lease Commitments

Operating lease commitments as lessor

The Corporation has, along with the Crown, granted a long-term lease (the "Core Lease") to KiwiRail Holdings Ltd for nominal consideration, under which KiwiRail Holdings Ltd can enjoy the commercial benefit of the land. KiwiRail Holdings Ltd 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 2013 or 30 June 2013.

6. Capital and Other Commitments

The Corporation has no commitments for capital purchases at 31 December 2013 or 30 June 2013.

7. Reconciliation of Net Loss to Net Cash Flows from Operating Activities

	6 months ended Dec 2013 (Unaudited)	6 months ended Jun 2013 (Unaudited)	Year ended Dec 2012 (Unaudited)
	\$000	\$000	\$000
Net loss	(1,170)	(691)	(71,097)
Add / (deduct) items classified as investing or financing activities			
Loss/(profit) on sale of assets	444	-	(37)
Fair value movement in derivatives	-	-	(3,900)
Capital grant receipts	-	-	(100,871)
	(726)	(691)	(175,905)
Add non-cash flow items			
Depreciation and amortisation expense	726	691	4,894
Movements in provisions	-	-	(955)
Effect of exchange rate changes on cash balances	-	-	(1)
Impairment of property, plant and equipment	-	-	185,669
	-	-	13,702
Add / (deduct) movements in working capital			
Decrease in trade receivables	-	-	327
Increase in other receivables	-	-	(90,305)
Increase in trade payables	-	-	7,240
Increase/(decrease) in other payables	-	-	3,788
Net cash flows from operating activities	-	-	(65,248)

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial period ended 31 December 2013

8. Contingent Liabilities

(a) Option to purchase Wellington Railway Station

Included in the Waitangi Treaty Settlement signed by the Crown dated 19 August 2008, Taranaki Whanui Ki Te Upoko O Te Ika and The Port Nicholson Block Settlement Trust, has an option to purchase the Wellington Railway Station and surrounding land. Iwi notified its intention to exercise this option to purchase on 1st September 2011 and the parties are currently working through a procedure to assess the seismic rating of the building, and determine if they can agree the price and terms of the sale and purchase of the Station. Following that Iwi would then have the opportunity to confirm the exercise of its option.

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