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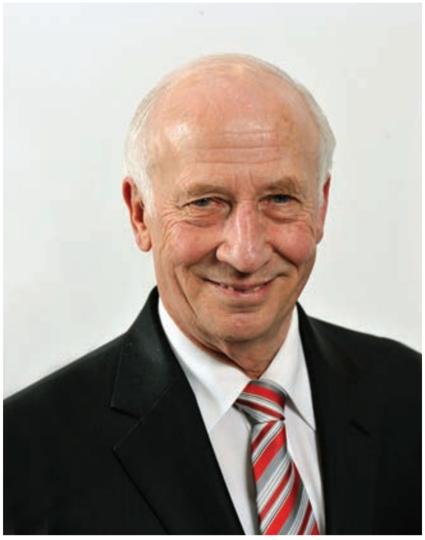
New Zealand
Railways Corporation

HALF-YEARLY REPORT

1 JULY 2014 - 31 DECEMBER 2014

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 2014.

During that period, 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.

Year to date operating costs are generally in line with budget.

KiwiRail has advised that it is proceeding with the possible disposal of certain sites, including land at Parnell and Mount Eden 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

New Zealand Railways Corporation

Statement of Financial Performance

For the six months ended 31 December 2014

	Note	6 months ended Dec 2014 (Unaudited)	6 months ended Dec 2013 (Unaudited)	Year ended June 2014 (Audited)
		$000	$000	$000
Operating revenue	1	19	31	62
Operating expenses	2	(19)	(31)	(62)
Operating surplus		-	-	-
Depreciation and amortisation expense		(726)	(726)	(1,452)
Net gain/(loss) on sale and purchase of land	3	6	(444)	(444)
Net loss		**(720)**	**(1,170)**	**(1,896)**

New Zealand Railways Corporation

Statement of Comprehensive Revenue and Expense

For the six months ended 31 December 2014

	6 months ended Dec 2014 (Unaudited)	6 months ended Dec 2013 (Unaudited)	Year ended June 2014 (Audited)
	$000	$000	$000
Net loss	**(720)**	**(1,170)**	**(1,896)**
Other comprehensive revenue and expense			
Vesting of assets and liabilities	(184)	-	-
Total comprehensive revenue and expense	**(904)**	**(1,170)**	**(1,896)**

The accompanying notes form part of these financial statements.

Statement of Financial Position

As at 31 December 2014

	Note	31 Dec 2014 (Unaudited)	31 Dec 2013 (Unaudited)	30 June 2014 (Audited)
		$000	$000	$000
Current assets				
Cash and cash equivalents		1	1	1
Non-current assets		**1**	**1**	**1**
Property, plant and equipment	4	3,270,650	3,272,280	3,271,554
		3,270,650	**3,272,280**	**3,271,554**
TOTAL ASSETS		**3,270,651**	**3,272,281**	**3,271,555**
Current liabilities				
Trade and other liabilities		1	1	1
		1	**1**	**1**
TOTAL LIABILITIES		**1**	**1**	**1**
NET ASSETS		**3,270,650**	**3,272,280**	**3,271,554**
Equity				
Equity capital		1,532,446	1,532,446	1,532,446
Retained earnings		(1,397,544)	(1,395,915)	(1,396,640)
Asset revaluation reserve		3,135,748	3,135,749	3,135,748
TOTAL EQUITY		**3,270,650**	**3,272,280**	**3,271,554**

John Spencer, Chairman
24 February 2015

Rose Anne MacLeod, Director
24 February 2015

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

For the six months ended 31 December 2014

	Equity Capital	Retained Earnings	Asset Revaluation Reserve	Cash Flow Hedge Reserve	Total
	$000	$000	$000	$000	$000
As at 1 July 2013 (Audited)	**1,532,446**	**(1,395,027)**	**3,136,031**	**-**	**3,273,450**
Net loss for the period	-	(1,170)	-	-	(1,170)
Other comprehensive revenue and expense					
Release of revaluation reserve to retained earnings	-	282	(282)	-	-
Total comprehensive revenue and expense	**-**	**(888)**	**(282)**	**-**	**(1,170)**
As at 31 December 2013 (Unaudited)	**1,532,446**	**(1,395,915)**	**3,135,749**	**-**	**3,272,280**
Net loss for the period	-	(726)	-	-	(726)
Other comprehensive revenue and expense					
Release of revaluation reserve to retained earnings	-	1	(1)	-	-
Total comprehensive revenue and expense	**-**	**(725)**	**(1)**	**-**	**(726)**
As at 30 June 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					
Vesting of assets and liabilities	-	(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**

The accompanying notes form part of these financial statements.

Statement of Cash Flows

For the six months ended 31 December 2014

	6 months ended Dec 2014 (Unaudited)	6 months ended Dec 2013 (Unaudited)	Year ended June 2014 (Audited)
	$000	$000	$000
Cash flows from operating activities			
Proceeds from:			
Receipts from customers from non-exchange transactions	19	31	62
Proceeds utilised for:			
Payments to suppliers and employees	(19)	(31)	(62)
Net cash from operating activities	**-**	**-**	**-**
Net increase/(decrease) in cash and cash equivalents	**-**	**-**	**-**
Cash and cash equivalents at the beginning of the period	**1**	**1**	**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

REPORTING ENTITY

New Zealand Railways 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.

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 that are measured at fair value.

Changes in accounting policies

These financial statements are the first set prepared under the PBE Standards. Previously the Corporation has adopted New Zealand equivalent to International Financial Reporting Standard (NZ IFRS) applicable to PBEs. Except for some terminologies and disclosure requirements, there are no notable differences 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. 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 2014.

SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies are consistently applied to all reporting periods presented in the Corporation's financial information.

(a) 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.

(b) Property, plant and equipment

(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 classes of assets, land and buildings.

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, except to the extent that it reverses a revaluation decrease for the same asset class previously recognised as an expense in the surplus or deficit, in which case the increase is credited to the surplus or deficit to the extent of the decrease previously charged. 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.

(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.

(v) 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.

(c) Leases

Operating leases

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.

(d) Income tax

The Corporation is exempt from income tax as a public authority.

(e) Goods and services tax (GST)

All items in the financial statements are presented exclusive of GST, except for receivables and payables, which are presented on a GST inclusive basis. Where GST is not recoverable as an input tax it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a net basis in respect of GST. The GST component of cash flows arising from investing and financing activities, that are recoverable from, or payable to, IRD, are classified as operating cash flows.

(f) Financial assets

Financial assets comprise cash and cash equivalents and trade receivables. Trade receivables are classified as loans and receivables and are carried at amortised cost using the effective interest method. Loans and receivables are not discounted due to their short-term nature.

Financial assets are recognised and derecognised on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except for those financial assets classified as at fair value through surplus or deficit which are initially measured at fair value.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, call deposits and other investments with an initial term of 3 months or less which are readily convertible to known amounts of cash and are subject to insignificant risks of changes in value.

(g) Financial liabilities

Financial liabilities comprise trade payables.

Payables are recognised when the Corporation becomes obliged to make future payments resulting from the purchase of goods and services. Payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method.

1. TOTAL INCOME

	6 months ended Dec 2014 (Unaudited)	6 months ended Dec 2013 (Unaudited)	Year ended June 2014 (Audited)
	$000	$000	$000
Operating revenues from non-exchange transactions	19	31	62
Total income	**19**	**31**	**62**

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.

2. OPERATING EXPENSES

	6 months ended Dec 2014 (Unaudited)	6 months ended Dec 2013 (Unaudited)	Year ended June 2014 (Audited)
	$000	$000	$000
Lease and rental costs	-	-	2
Incidents, casualties and insurance	-	-	22
Fees paid to auditors: Audit fees	-	16	16
Directors' fees	9	9	18
Other expenses	10	6	4
Total operating expenses	**19**	**31**	**62**

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

3. NET GAIN/(LOSS) ON SALE AND PURCHASE OF LAND

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

KRL can identify new parcels of land that are required for rail purposes. KRL will purchase the land and either retain ownership of it or transfer it to NZRC to be included within the lease. If transferred to NZRC the land will be owned by NZRC even though KRL will fund the acquisition (in order that the ownership structure for all Crown rail land is consistent). This land is then leased to KRL under the existing lease agreement.

During the current reporting period, KRL purchased a parcel of land worth $42,000 and transferred ownership of it to NZRC for nil consideration. This transaction was accounted for as a gain on purchase of land by NZRC.

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

	6 months ended Dec 2014 (Unaudited)	**6 months ended Dec 2013 (Unaudited)**	**Year ended June 2014 (Audited)**
	$000	$000	$000
Carrying value of land sold	(36)	(444)	(444)
Land purchased by KRL transferred to NZRC	42	-	-
Net gain/(loss) on sale and purchase of land recognised in Statement of Financial Performance	**6**	**(444)**	**(444)**
Release of revaluation reserve	-	282	282
Net gain/(loss) on original cost	**6**	**(162)**	**(162)**

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

4. PROPERTY, PLANT AND EQUIPMENT

Land and Buildings	31 Dec 2014 (Unaudited)	31 Dec 2013 (Unaudited)	30 June 2014 (Audited)
	$000	$000	$000
Cost	3,274,209	3,274,388	3,274,388
Accumulated Depreciation	(3,559)	(2,108)	(2,834)
Net Book Value	**3,270,650**	**3,272,280**	**3,271,554**

5. LEASE COMMITMENTS

Operating lease commitments as lessor

The Corporation has, along with the Crown, granted a long-term lease (the "Core Lease") to KRL 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 2014 or 30 June 2014.

6. CAPITAL AND OTHER COMMITMENTS

The Corporation has no commitments for capital purchases at 31 December 2014 or 30 June 2014.

7. RECONCILIATION OF NET LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	6 months ended Dec 2014 (Unaudited)	6 months ended Dec 2013 (Unaudited)	Year ended June 2014 (Audited)
	$000	$000	$000
Net loss	(720)	(1,170)	(1,896)
Add / (deduct) items classified as investing or financing activities			
Loss/(profit) on sale of assets	(6)	444	444
	(726)	(726)	(1,452)
Add non-cash flow items			
Depreciation and amortisation expense	726	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.

8. 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.

(a) 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 and work has commenced. Following the completion of the seismic upgrade works, valuations discussions will continue with the Taranaki Whanui Ki Te Upoko O Te Ika and The Port Nicholson Block Settlement Trust, which has an option to purchase the Wellington Railway Station building footprint and the social hall building and has other rights in respect of the surrounding land as set out in the Waitangi Treaty Settlement signed by the Crown dated 19 August 2008. The process is expected to be finalised in the next financial year.

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