

New Zealand
Railways Corporation

ANNUAL REPORT 2015



NEW ZEALAND RAILWAYS CORPORATION

ANNUAL REPORT

2015

Contents	Page
1. Chairman's Report	4
2. Board of Directors	5
3. Governance	6
4. Activities of the Corporation	8
5. Performance & Comparative Information	10
6. Audited Annual Financial Statements and Auditor's Report	11
7. Additional Information	26

1. Chairman's Report

I am pleased to present this annual report for the New Zealand Railways Corporation (the "Corporation"). As stated in previous Annual Reports, a restructure of the Crown's investment in rail operations and a change to the Corporation's role took effect from 31 December 2012. That restructure transferred the KiwiRail business into a new corporate group separate from the Corporation - KiwiRail Holdings Limited and its subsidiaries, leaving the Corporation holding railway land but no railway infrastructure assets. In this Annual Report, KiwiRail Holdings Limited and its subsidiaries are referred to as "KiwiRail". KiwiRail is the state owned enterprise ("SOE") responsible for the financial performance of the Crown's investment in rail operations.

The Corporation's primary role is to make available railway land to KiwiRail, in accordance with the Corporation's powers under the New Zealand Railways Corporation Act 1981 ("NZRC Act") and other legislation, and to account for the value of the land in its financial statements. 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 has leased the railway land to KiwiRail for a long term and 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 its 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.

In the period since the previous Annual Report, the Corporation has successfully performed its role in supporting the creation of a sustainable rail business in New Zealand.

A handwritten signature in dark ink, appearing to read "John Spencer". The signature is fluid and cursive, with the first name "John" being larger and more prominent than the last name "Spencer".

John Spencer CNZM, Chairman

2. Board of Directors

Chair, John Spencer, CNZM

John Spencer is Chairman of KiwiRail Holdings Limited, Tertiary Education Commission, Raukawa Iwi Developments Ltd and Waikato Regional Airport, and is a Director of Mitre 10 (New Zealand) Ltd. He was the Chief Executive of the New Zealand Dairy Group prior to the formation of Fonterra and has held senior management positions in New Zealand and Australia.

Director, Rose Anne MacLeod

Rose Anne MacLeod is a Chartered Accountant who has completed an MBA with distinction from Massey (1993) and the Advanced Management Programme at Harvard Business School in 2001. She has held a number of senior financial roles, including as Chief Financial Officer, for large public and private sector organisations in Australia and New Zealand. She is now the Chief Financial Officer at Housing New Zealand.

Director, Sharon Shea

Sharon Shea is a management consultant specialising in the fields of public sector strategy, results-based performance improvement frameworks, systems design and organisational development. Sharon works with government agencies, the NGO sector and for-profit companies. Sharon graduated from Oxford University with an MSc in Comparative Social Policy (Distinction) and also has a Bachelor of Laws and a Bachelor of Arts from Auckland University. Sharon currently serves on the Northland District Health Board and has held a variety of board memberships for both private and public/not-for-profit organisations.

3. Governance

The Corporation is a statutory corporation constituted under the NZRC Act and is not a company, so it does not have shares or shareholders. It is also a state-owned-enterprise listed in Schedule 1 to the State-Owned Enterprises Act 1986. Its responsible Ministers are the Minister of Finance and the Minister for State Owned Enterprises. Those Ministers are referred to in this report as the "Shareholding Ministers", to reflect the terminology used in the State Owned Enterprises Act 1986. The Board of the Corporation is accountable to the Shareholding Ministers.

The Corporation and KiwiRail are expected to work together and communicate openly, which is assisted by the Chair of the Corporation also being the Chair of KiwiRail. This reflects the expectation of the Shareholding Ministers and the applicable legislation.

Executive management

The Corporation does not have any employees or executives. The Corporation has entered into a Management Agreement under which KiwiRail provides corporate and administrative services to the Corporation for a nominal charge.

The Corporation is required by the NZRC Act to have a General Manager. This role is usually performed by an employee of KiwiRail at no cost to the Corporation.

Statutory compliance

The Board oversees compliance with the Corporation's statutory obligations (with assistance from KiwiRail under the Management Agreement), including the following obligations:

- preparing financial statements and arranging for their audit by the Auditor-General;
- submitting an annual report, half-yearly report and Statement of corporate intent to Shareholding Ministers each year in accordance with the State Owned Enterprises Act 1986;
- dealing with any requests for information made to the Corporation under the Official Information Act 1982 (though most information previously held by the Corporation has been vested in KiwiRail); and
- maintaining adequate records in accordance with the Public Records Act 2005.

General governance

The Board also:

- ensures there are 'no surprises' for the Shareholding Ministers (in accordance with Treasury's Owner's Expectations Manual);
- manages any conflicts of interest;
- monitors the performance of KiwiRail under the Management Agreement;

- arranges for directors' and officers' insurance cover and directors' indemnities, in accordance with section 7A of the NZRC Act; and
- holds Board meetings as it deems necessary to perform its role.

In view of the limited activities of the Corporation:

- there are no standing sub-committees of the Board; and
- the Board meets quarterly, or with such greater frequency as it may determine from time to time.

4. Activities of the Corporation

Railway land

The Corporation's only significant asset is railway land. That railway land is leased to KiwiRail on terms that give KiwiRail comprehensive rights to enjoy the land and primary responsibility for managing the land. The Corporation therefore has a minimal ongoing role in managing the land (as the Crown's agent). The Corporation continues to have responsibility to include the value of railway land in its financial statements.

In this annual report "railway land" refers to all Crown land held for railway purposes except that which is administered by Land Information New Zealand and is no longer needed for railway purposes.

Under the lease KiwiRail can undertake many activities in relation to the land without requiring the consent or involvement of the Corporation. KiwiRail also carries the legal risks associated with use of the land.

KiwiRail is able to sub-lease railway land for periods of time within the term of the lease. The Corporation expects that KiwiRail will undertake sub-leasing activity that meets KiwiRail's business interests and that complies with the Corporations' statutory obligations regarding railway land.

If KiwiRail requires additional land to conduct its business, it may purchase land in its own name or may require the Corporation to acquire new land. KiwiRail may arrange for the Corporation to purchase new land and lease it to KiwiRail on the same terms as the existing lease. KiwiRail may also request the Corporation to exercise its powers to compulsorily acquire additional land and lease it to KiwiRail. Whenever KiwiRail does exercise such powers under the lease to require the Corporation to purchase additional land:

- the purchase cost of the land (including associated expenses) is funded by KiwiRail and regarded as an increase in equity for the Corporation.
- the Corporation is required to lease to KiwiRail any land that is acquired on the same terms as the existing lease.

KiwiRail may also identify railway land that should be sold and request the Corporation to sell it, surrender it from the lease and provide the sale proceeds to KiwiRail. When KiwiRail requests that the Corporation sell land, the Corporation:

- relies on KiwiRail to find a prospective buyer and negotiate sale terms conditional on satisfaction of all requisite statutory approvals and clearances for sale (and the Corporation is not expected to evaluate the value of the proposal against any alternatives);
- seeks a report from KiwiRail on the effect of the proposal on the future development of the railway;

- complies with applicable statutory obligations, including obtaining the consent of the Minister responsible for the NZRC Act;
- seeks confirmation from KiwiRail that all requisite statutory approvals and clearances for sale have been met;
- considers how such a sale would impact upon the Corporation's functions contained in section 12 of the NZRC Act, in particular, its function to arrange for safe and efficient rail freight and passenger transport services in New Zealand; and
- complies with its obligation under the lease to provide to KiwiRail proceeds from the sale of land surrendered from the lease.

The Shareholding Ministers expect that the proceeds from selling any railway land should go to KiwiRail to support its business as the SOE responsible for the financial performance of the Crown's investment in rail operations. As a result of the reduction in the Corporation's asset base, the Corporation will recognise an asset distribution to the Crown equivalent to the net sales proceeds realised from the sale. The Crown will recognise an increase in the equity of KiwiRail for the same amount.

The Corporation is not expected to consider acquiring or selling railway land when it is not requested by KiwiRail.

Wellington Station Building

The Corporation is also the current legal owner of the Wellington Railway Station and social hall building. The building is subject to an option to purchase by the Port Nicholson Settlement Trust under its Treaty of Waitangi settlement with the Crown. That option meant that the building could not be transferred to KiwiRail in the restructure.

The building is currently leased to KiwiRail, and all of the Corporation's rights to receive any payments under that lease are vested with KiwiRail. KiwiRail and the Port Nicholson Settlement Trust are currently in negotiations about the possible sale of the building to the Trust under the Trust's option to purchase. The Corporation's rights to receive any consideration in the event that the building is sold are vested with KiwiRail.

The Corporation expects that, in the event the Trust does not exercise its purchase option, then the land will become part of the demise under the lease to KiwiRail and ownership of the buildings will be transferred to KiwiRail, for no or nominal consideration.

5. Performance & Comparative Information

Section 15(2) of the State Owned Enterprises Act 1986 requires that the annual report include a comparison of the performance of the Corporation with its Statement of Corporate Intent.

The following matters are set out in the Corporation's Statement of Corporate Intent as relevant to measuring the performance of the Corporation:

- The Shareholding Ministers do not expect the Corporation to make an operating surplus, make any return on capital, or return a dividend.
- When the Corporation sells land and the sale proceeds of land surrendered from the lease are provided to KiwiRail, the Corporation may make an accounting loss.
- The Corporation shall comply with its obligations under the lease, the State Owned Enterprises Act, the NZRC Act and other relevant legislation.
- The Corporation shall only incur expenditure which it will be able to meet.

By way of comparison to these measures:

- No dividend will be paid to the Crown in respect of the financial year ended 30 June 2015.
- For the financial year ended 30 June 2015 all operating costs incurred by the Corporation were covered by the management fee from KiwiRail, resulting in no operating surplus or loss.
- The Corporation has complied with its obligations under the lease and relevant legislation in all material respects.
- The Corporation has not incurred expenditure that it has been unable to meet when due.

6. Audited Financial Statements and Auditor's Report

Contents	Page
Statement of Financial Performance	12
Statement of Comprehensive Revenue and Expense	12
Statement of Financial Position	13
Statement of Changes in Equity	14
Statement of Cash Flows	15
Notes to the Financial Statements	16
Independent Auditor's Report	23

NEW ZEALAND RAILWAYS CORPORATION
Statement of Financial Performance
For the financial year ended 30 June 2015

	Note	2015 \$000	2014 \$000
Operating revenues	2	112	62
Operating expenses	3	(112)	(62)
Operating surplus		-	-
Depreciation and amortisation expense	5	(1,452)	(1,452)
Net gain/(loss) on sale and purchase of land	4	4,631	(444)
Net surplus/(deficit)		3,179	(1,896)

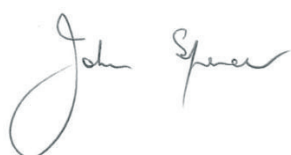
Statement of Comprehensive Revenue and Expense
For the financial year ended 30 June 2015

	Note	2015 \$000	2014 \$000
Net surplus/(deficit)		3,179	(1,896)
Other comprehensive revenue and expense			
Revaluation of property, plant and equipment	5	119,531	-
Total comprehensive revenue and expense		122,710	(1,896)

The accompanying notes form part of these financial statements.

NEW ZEALAND RAILWAYS CORPORATION
Statement of Financial Position
As at 30 June 2015

	Note	2015 \$000	2014 \$000
Current assets			
Cash and cash equivalents		1	1
Goods and services tax receivable		7	-
Assets held for sale	6	17,414	-
		17,422	1
Non-current assets			
Property, plant and equipment	5	3,363,486	3,271,554
		3,363,486	3,271,554
TOTAL ASSETS		3,380,908	3,271,555
Current liabilities			
Trade and other liabilities		8	1
		8	1
TOTAL LIABILITIES		8	1
NET ASSETS		3,380,900	3,271,554
Equity			
Equity capital		1,532,446	1,532,446
Retained earnings		(1,380,997)	(1,396,640)
Asset revaluation reserve		3,229,451	3,135,748
TOTAL EQUITY		3,380,900	3,271,554



John Spencer
Chairman
31 July 2015



Rose Anne MacLeod
Director
31 July 2015

The accompanying notes form part of these financial statements.

NEW ZEALAND RAILWAYS CORPORATION
Statements of Changes in Equity
For the financial year ended 30 June 2015

	Equity Capital \$000	Retained Earnings \$000	Asset Revaluation Reserve \$000	Total \$000
As at 30 June 2013	1,532,446	(1,395,026)	3,136,030	3,273,450
Net deficit for the year	-	(1,896)	-	(1,896)
Other comprehensive revenue and expense				
Release of revaluation reserve to retained earnings	-	282	(282)	-
Total comprehensive revenue and expense	-	(1,614)	(282)	(1,896)
As at 30 June 2014	1,532,446	(1,396,640)	3,135,748	3,271,554
Net surplus for the year	-	3,179	-	3,179
Other comprehensive revenue and expense				
Revaluation of property, plant and equipment	-	-	119,531	119,531
Release of revaluation reserve to retained earnings	-	25,828	(25,828)	-
Total comprehensive revenue and expense	-	29,007	93,703	122,710
Transactions with owners				
Sale and purchase of NZRC land (Note 4)	-	(13,364)	-	(13,364)
As at 30 June 2015	1,532,446	(1,380,997)	3,229,451	3,380,900

The accompanying notes form part of these financial statements.

NEW ZEALAND RAILWAYS CORPORATION
Statement of Cash Flows
For the financial year ended 30 June 2015

	2015	2014
	\$000	\$000
Cash flows from operating activities		
<i>Proceeds from:</i>		
Receipts from customers from non-exchange transactions	112	62
<i>Proceeds utilised for:</i>		
Payments to suppliers and employees	(112)	(62)
Net cash from operating activities	-	-
Cash flow from investing activities		
<i>Proceeds from:</i>		
Sale and swap of property, plant and equipment	13,429	-
<i>Proceeds utilised for:</i>		
Purchase of property, plant and equipment	(65)	-
Net cash flow from investing activities	13,364	-
Cash used in financing activities		
<i>Proceeds from:</i>		
Increase in equity	65	-
<i>Proceeds utilised for:</i>		
Reduction in equity	(13,429)	-
Net cash used in financing activities	(13,364)	-
Net increase/(decrease) in cash and equivalents	-	-
Cash and cash equivalents at the beginning of the year	1	1
Cash and cash equivalents at the end of the year	1	1

The accompanying notes form part of these financial statements.

NEW ZEALAND RAILWAYS CORPORATION

Notes to the Financial Statements

For the financial year ended 30 June 2015

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 year ended 30 June 2015 and were authorised for issue by the Board of Directors on 31 July 2015.

(b) BASIS OF PREPARATION

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.

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 the first full-year 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 year. Accounting policies have been applied on a basis consistent with those used in previous years.

(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.

NEW ZEALAND RAILWAYS CORPORATION
Notes to the Financial Statements (Continued)
For the financial year ended 30 June 2015

2. OPERATING REVENUE

	2015	2014
	\$000	\$000
Operating revenues from non-exchange transactions	112	62
Total Operating Revenue	112	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.

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

	2015	2014
	\$000	\$000
Lease and rental costs	2	2
Insurance	22	22
Fees paid to auditors: Audit fees	16	16
Directors' fees (refer to note 9)	18	18
Professional fees	53	-
Other expenses	1	4
Total operating expenses	112	62

NEW ZEALAND RAILWAYS CORPORATION
Notes to the Financial Statements (Continued)
For the financial year ended 30 June 2015

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 Group (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.

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 transactions in the current financial year.

	2015	2014
	\$000	\$000
Net proceeds from land sold	(13,245)	-
Net proceeds from land swap		
Land given up	(489)	-
Land acquired	305	-
Net	(184)	-
Cost of land acquisitions	65	-
Net impact of sale and purchase of land charged to equity	(13,364)	-

	2015	2014
	\$000	\$000
Carrying value of land sold/given up	(8,614)	(444)
Carrying value given up from land swap	(489)	-
Net proceeds from sale of land	13,734	-
Gain/(loss) on sale	4,631	(444)
Release of revaluation reserve	8,863	282
Net gain/(loss) on original cost	13,494	(162)

NEW ZEALAND RAILWAYS CORPORATION
Notes to the Financial Statements (Continued)
For the financial year ended 30 June 2015

PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings
Cost:	\$000
Balance at 1 July 2013	3,274,832
Additions	-
Disposals	-
Reclassifications / Other movements	(444)
Balance at 30 June 2014	3,274,388
Additions	370
Disposals	(9,103)
Revaluation	115,245
Transfer to asset held for sale	(17,414)
Balance at 30 June 2015	3,363,486
Accumulated depreciation:	
Balance at 1 July 2013	1,382
Depreciation expense	1,452
Balance at 30 June 2014	2,834
Depreciation expense	1,452
Revaluation	(4,286)
Balance at 30 June 2015	-
Net book value:	
At 30 June 2014	3,271,554
At 30 June 2015	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.

(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.

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

NEW ZEALAND RAILWAYS CORPORATION

Notes to the Financial Statements (Continued)

For the financial year ended 30 June 2015

5. PROPERTY, PLANT AND EQUIPMENT (continued)

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 30 June 2015, the total fair value of land and buildings is \$3,363,486,000. The asset revaluation resulted in an increase of \$119,531,000 for land and buildings.

(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) 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.

5. 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 cost to sell. Assets held for sale are not depreciated.

As at 30 June 2015, assets held for sale of \$17,414,000 (2014: nil) are reflected at fair value less cost to sell. The total carrying value before adjustment was \$20,519,000.

6. 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 30 June 2015 (2014: nil).

7. CAPITAL AND OTHER COMMITMENTS

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

NEW ZEALAND RAILWAYS CORPORATION
Notes to the Financial Statements (Continued)
For the financial year ended 30 June 2015

The Corporation has no commitments for capital purchases at 30 June 2015 (2014: nil).

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

	2015	2014
	\$000	\$000
Net surplus/(deficit)	3,179	(1,896)
Add / (deduct) items classified as investing or financing activities		
(Profit)/loss on sale of assets	(4,631)	444
	(1,452)	(1,452)
Add non-cash flow items		
Depreciation and amortisation expense	1,452	1,452
Net cash flows from operating activities	-	-

9. RELATED PARTY TRANSACTIONS

Significant transactions with government-related entities

There were no capital or grant funds received during the current financial year (2014: nil).

The Corporation has received \$112,000 in management fees from KHL representing reimbursement of the Corporation's expenses for financial year ended 30 June 2015 (2014: \$62,000).

Significant transactions with government-related entities

For the year ended 30 June 2015, the Corporation had no significant transactions, individually or collectively, with government-related entities (2014: 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 2015 (2014: nil).

There were no short term employee benefits, termination benefits or post-employment benefits paid to key management personnel in 2015 (2014: nil)

Employees' remuneration

The Corporation does not have any employees.

The Directors earned the following fees during the year:

	2015	2014
	\$000	\$000
John Spencer	6	6
Rose Anne MacLeod	6	6
Sharon Shea	6	6
Total Directors' fees	18	18

NEW ZEALAND RAILWAYS CORPORATION
Notes to the Financial Statements (Continued)
For the financial year ended 30 June 2015

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 year and is expected to be completed in the 2016 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.

Independent Auditor's Report

To the readers of the New Zealand Railways Corporation's financial statements for the year ended 30 June 2015

The Auditor-General is the auditor of the New Zealand Railways Corporation (the Corporation). The Auditor-General has appointed me, Stephen Lucy, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the Corporation on her behalf.

Opinion

We have audited the financial statements of the Corporation on pages 12 to 22, that comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion the financial statements of the Corporation:

- present fairly, in all material respects:
 - its financial position as at 30 June 2015; and
 - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with Public Sector PBE Accounting Standards.

Our audit was completed on 31 July 2015. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Corporation's financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of the disclosures in the financial statements; and
- the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. Also we did not evaluate the security and controls over the electronic publication of the financial statements.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and fair presentation of financial statements for the Corporation that comply with generally accepted accounting practice in New Zealand.

The Board of Directors' responsibilities arise from the State-Owned Enterprises Act 1986.

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements, whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, we have no relationship with or interests in the Corporation.



S B Lucy
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

7. Additional Information

Director Remuneration

Refer to note 10 to the financial statements for the total remuneration paid to the directors during the financial year to 30 June 2015.

The Corporation has effected directors' and officers' liability insurance to cover the Corporation's directors.

The Corporation indemnifies the directors for liabilities for acts or omission made in their capacity as directors, to the extent permitted by section 7A of the NZRC Act.

Employee Remuneration

As at 30 June 2015 the Corporation does not have any employees.