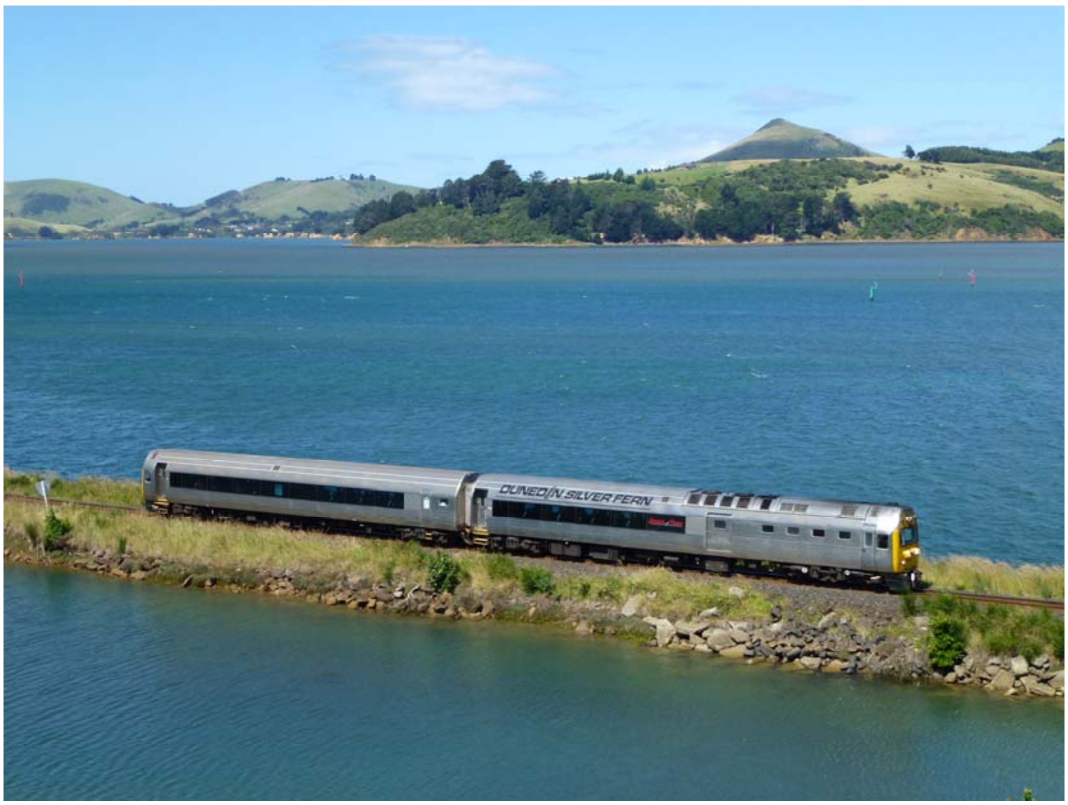
TAIERI GORGE RAILWAY LIMITED



# Annual Report
# For the Year Ended
# 30 June 2014

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***Principal Activities of the Company***

The principal activity of Taieri Gorge Railway Ltd is to operate train services as a tourist, charter and community orientated enterprise utilising the Taieri Gorge railway line and the Main South Line of the New Zealand Railways Corporation national network.
As well as the provision of train services on those lines, the company operates a travel agency and retail outlet based at the Dunedin Railway Station, and carries out some contract engineering and train services.

## HIGHLIGHTS OF THE YEAR

- Restructuring of the Board of Directors including appointment of new Chairman and two new Directors
- Safety Management development including the formalisation of a Board Safety Subcommittee, an improved management reporting system and substantial progress on safety audit management.
- New strategic direction resulting in the appointment of a Business and Development Manager and development of a new company Strategic Plan
- Repayment of 73K debt over the year.
- Introduction of a new live reservation system and a new website into the company.
- Revenue for the daily train increasing by 3.6% and margin increasing by 5.4%.
- Completion of gorge radio system to allow improved communications and safety management.
- Commencement of new train services to Moeraki Boulders

## DIRECTORS' REPORT
## For the Year Ended 30 June 2014

The directors are pleased to present the Annual Report together with the financial statements of the company for the year ended 30 June 2014.

The company experienced a difficult year as a result of the general tourist market remaining weak and a decline in the cruise ship market. The market continues to be affected as a result of the Christchurch earthquakes while there appears to be a continuing trend for shorter visits to New Zealand. As a result there tends to be lower visitor numbers to regional areas.

The company commenced a period of strategic change during the year in order to increase efficiencies within the company, to grow the market and margins, and to meet changing market conditions. The Board has three new Directors and the company has new management staff in key positions. A strategic planning meeting in June 2014 has resulted in a new Strategic Plan being developed and a range of new initiatives being investigated and introduced into the key areas of marketing, safety and operations. It was accepted that some of the product of the company has become stale and too time consuming therefore we need to review or refresh this product. Safety management initiatives have been introduced during the year by Directors and Management including the formation of a formal Board Safety Subcommittee and improved reporting procedures.

In spite of the impact of current market conditions the Board remains cautiously optimistic. The coming summer season is likely to show recovery in tourist numbers. Business initiatives have been introduced in the company's on-going efforts to increase passenger numbers on the daily train and to maximise revenue on cruise ship days. Forward predictions show a return to profitability in the year ahead The company faces the potential threat of cruise ship visits reducing as a result of ship repositioning to North Island port visits.

The company has a strong trading base and is highly regarded in the market-place. The continuing strategy is to target growth opportunities while managing our maintenance work load in such a way to ensure that safety is not compromised.
While the company is not likely to generate substantial profits in the medium term its true value is best measured by the contribution it makes to the wider Dunedin economy.

It is important to recognise and appreciate the critical role which the Otago Excursion Train Trust and its volunteers play in the operation of the company.
Passengers on excursion trains are hosted by up to one hundred volunteers who provide a wonderful service free of charge and are superb ambassadors for the promotion of Dunedin. The company and the wider community owe these generous helpers a huge debt of gratitude.

The directors also acknowledge the dedication of the Chief Executive, Murray Bond, and each member of his committed staff who have played a vital part in achieving a satisfactory result for the year under review.

The company acknowledges the contribution of the previous Chairman, Mr. John Farry, who retired during the year in December 2013, who has given 22 years of invaluable service to the company. John was the Founding Chairman of the company and led the organisation through the Save the Train Appeal in 1990 which was successful in raising funds to secure the future of the company. John saw the company through the establishment and growth periods of the last 22 years and has given outstanding service to the company for which we are all particularly grateful.

The company also acknowledges the long service of retiring Director Mr. John Chapman who has given 11.5 years valuable service as a Director and many earlier years in governance roles.

**G.R. Thomas**
**Chairman**

## DIRECTORS' REPORT
## For the Year Ended 30 June 2014

***Results for the Year Ended 30 June 2014***

| | Year Ended 30 June 2014 $'000 | Year Ended 30 June 2013 $'000 |
|---|---|---|
| Operating Profit/(Loss) continuing operations pretax | (77) | 47 |
| Income Tax Expense | (26) | 8 |
| **Profit/(Loss) from continuing operations** | (51) | 39 |

***State of Affairs***

The directors are of the opinion that the state of affairs of the Taieri Gorge Railway Limited is satisfactory.

The financial structure of the company remains satisfactory with an equity to total assets ratio of 48.7% and a net worth of $1,712,801 at 30 June 2014.

***Dividends***

The directors have recommended that no dividend be paid for the year ended 30 June 2014.

***Reserves***

There have been no transfers made to reserves during the year to 30 June 2014.

***Review of Operations***

Taieri Gorge Railway Limited operates in four main income divisions being:

- The Taieri Gorge Limited daily tourist train
- Excursions and Charter train services
- Dunedin Silver Fern railcar services
- Domestic travel agency with retail sales at Dunedin Railway Station.

There is also contract income from engineering and equipment lease work.

*Safety Management*

The company has developed improved safety management procedures during the year including the formation of a Board Safety Subcommittee which contains two board members and which meets formally with key management staff three monthly. Key safety policy documents have been formalised and developed in line with regulatory requirements and with best modern practice. Safety reporting has been elevated to the top of meeting agendas and safety reporting is now included in separate stand-alone papers from general Board and Management business. The annual safety audit carried out during the year resulted in the company achieving a higher level of compliance as a result of the proactive and professional approach to safety being applied within the company.

## DIRECTORS' REPORT
## For the Year Ended 30 June 2014

*The Taieri Gorge Limited*

The Taieri Gorge Limited operates in the international and domestic tourism market and has experienced another difficult year. International visitor numbers to New Zealand rose by 5.7% but the continuing negative effect of the Christchurch earthquakes and the tendency for shorter stays in New Zealand resulted in a flat market in this part of the country. Our daily tourist train carried 47,041 passengers, which resulted in a 0.6% decrease in fare paying customers on the previous year. However, revenue in this division rose by 3.6% ($99K) to $2,862,213 and the margin achieved increase by 5.4% from $1,168,357 to $1,231,831. The train continues to receive high satisfaction ratings in visitor surveys of Dunedin's attractions and continues to feature in the must-do activities in Dunedin in the latest international guidebooks therefore is well placed to thrive as markets recover.

*Excursions and Charters*

The Excursions and Charters division experienced a satisfactory year in line with reduced cruise ship visits to Dunedin. The number of cruise ship passengers carried decreased by 8.8% to 15,662 but exceeded budget expectations. Revenue in this division fell by 11.4% to $2,347,234 but exceeded budget expectations by $70,264 and produced a margin $96,160 over expectations. Improved passenger loadings off cruise ships visiting contributed to the result bettering expectations and signal an improved future for this market. The continued lease of a 94 seat Silver Fern railcar from KiwiRail has proved successful in this second year of usage with 6,797 passengers carried and a good margin achieved from this operation.

*Marketing*

Strategic improvements were made within the Marketing division during the year with the creation of the new managerial position of Business Development Manager. Marketing spend was rationalised during the year to achieve improved control and returns from marketing choices being made. The development and commissioning of both a new live reservation system and a new company marketing website were the key achievements during the year. These new systems have moved the company into the forefront of the digital age and in line with the top tourist operations within New Zealand. We continue to increase our level of web marketing by introducing incentives through our website with good results, and we have built our presence in the all important social media market which is proving to be a growth medium. The new reservation system enhances product selection and company income by maximising returns per seat sold and improving presales cash flow. The new Strategic Plan completed for the company has a strong focus on increased revenue and margins to ensure an improved future for the company. The company continues to be a leader in the Asian market sector with a dedicated staff member concentrating on the new and rapidly growing Chinese market. Chinese customer numbers on the daily train increased by in excess of 100% over the year.

*Maintenance*

Our maintenance workload is significant as a result of the age of locomotives, carriage fleet and track infrastructure. We are continually reviewing the future of our carriage fleet as authorities and engineering findings start to limit the future operation of our older equipment. A new Asset Management system for the company has been scoped and selected and this important new management asset will be commissioned in the new year. Improved management systems have been introduced into the workshop and track areas and increased efficiency of work being carried out is beginning to show. The need to maintain locomotive and carriage assets in reliable and safe condition is vital to the future of the company and this is a significant portion of the ongoing costs of the company.

The track team has been concentrating on our key strategies of replacing weak sleepers and fastenings and of minimising any geometry exceedances in our track. Increased resleepering work was recorded during the year. Workloads in this division are high and management assistance is now being developed to better plan and prioritise the workload.

*Strategic Initiatives*

A strategic planning meeting was held during the year in order to plan for company improvements over the years ahead. From this a new Strategic Plan has been developed. The company has introduced a number of business improvement measures in order to action our strategic plan. The aim is for increased business levels and a better return per customer.

*Outlook*

Business levels for the daily train have been weak since the Christchurch earthquakes three or more years ago and are currently at the lowest levels experienced in ten years. However the forward market is showing promise, with some improvement expected as tourists return to the South Island as a result of the Christchurch hotels reopening and as the length of stay recovers. The future cruise ship market remains relatively strong but is not at the level of some recent years as a result of voyage re-routing. Introduction of strategic initiatives both in income and cost centres will result in improved future performance. As a result, we look forward with some confidence to a market recovery for the daily train and to better financial results in the medium term.

We are served by a strong and loyal team of employees and volunteers. The staff structure is lean and we continue to use multi-skilling in many divisions of the company.  We wish to thank all staff and volunteers formally for their loyalty and commitment to the company under what are often heavy seasonal workloads.

***Financial Statements***

The audited financial statements for the year ended 30 June 2014 are attached to this report.

***Directors' Interests in Contracts***

No material contracts involving directors' interests were entered into during the year ended 30 June 2014 nor existed at the end of this period.

***Information on the Directors of Taieri Gorge Railway Limited***

| **Director** | **Position/Term of office** | **Responsibilities** | **Remuneration** |
|---|---|---|---|
| G R Thomas | Chairman 0.5 years<br>Director 0.5 years | Chairman from 18 December 2013<br>Appointed by DCC | $9,000 |
| J E Farry | Chairman 18.5 years<br>Director 18.5 years<br>(retired December 2013) | Past Chairman (retired December 2013)<br>Appointed jointly by DCC/OETT | $9,000 |
| G M T Williams | Deputy Chairman 12 years<br>Director 16 years | Deputy Chairman<br>Appointed jointly by DCC/OETT | $11,900 |
| J M Chapman | Director 11.5 years<br>(resigned September 2013) | Non-Executive Director<br>Appointed by OETT | $2,975 |
| B R N Dodds | Director 2 years<br>(resigned December 2013) | Non-Executive Director<br>Appointed by DCC | $4,958 |
| J D Holmes | Director 1 year | Non-Executive Director<br>Appointed by OETT | $7,933 |

| | | | |
|---|---|---|---|
| F J McCall | Director 16 years | Non-Executive Director Appointed by DCC | $11,900 |
| Hon. Stan Rodger | Director 4 years | Non-Executive Director Appointed by DCC | $5,950 |
| D W Wood | Director 1 year | Non-Executive Director Appointed by OETT | $7,933 |
| | | | $71,549 |

No director holds shares in Taieri Gorge Railway Limited nor has acquired or disposed of any shares during the year.

***Directors' Insurance***

In accordance with the constitution, Taieri Gorge Railway Limited have arranged policies of Directors' Liability Insurance which, together with a deed of indemnity, ensure that the directors will incur no monetary loss as a result of actions undertaken by them as directors, provided that they operate within the law.

***Directors' Benefits***

No director of Taieri Gorge Railway Limited has, since the end of the previous financial period, received or become entitled to receive a benefit (other than a benefit included in the total remuneration received or due and receivable by the directors as shown in the financial statements). Note 23 of the Financial Statements shows related party transactions which include company directors.

There were no notices from directors of the company requesting to use company information received in their capacity as directors which would not otherwise have been available to them.

Transactions between related parties are at normal commercial rates. Transactions between Taieri Gorge Railway Limited and companies in which the directors may have an interest were not considered material. No loans were made to directors during the year.

***Donations***

The company made no monetary donations during the year ended 30 June 2014. The company worked constructively with community groups throughout the year as part of our community support commitment.

***Auditors***

The auditor for the company is Audit New Zealand on behalf of the Auditor-General. The audit fee for the year ended 30 June 2014 is $18,994.

***Events Subsequent to Balance Date***

The directors are not aware of any matter or circumstance since the end of the financial period not otherwise dealt with in this report or the company's financial statements that has significantly or may significantly affect the operation of Taieri Gorge Railway Limited, the results of those operations or the state of affairs of the company.

On behalf of the Board of Directors:

G R Thomas
Date: ~~10~~ 25 September 2014

# Statement of Comprehensive Income

**For the Year Ended 30 June 2014**

| | Note | Year Ended 30 June 2014 $'000 | Year Ended 30 June 2013 $'000 |
|---|---|---|---|
| **Continuing Operations** | | | |
| Revenue | 4 | 5,552 | 5,768 |
| Total revenue | | 5,552 | 5,768 |
| Less expenses | | | |
| Audit fees - audit of annual report | | 19 | 18 |
| Contractors | | 869 | 1,000 |
| Depreciation | | 292 | 259 |
| Directors Fees | | 72 | 73 |
| Employee expenses | | 2,537 | 2,380 |
| Financial expenses | | 73 | 62 |
| Raw materials and consumables used | | 935 | 984 |
| Other expenses | | 832 | 945 |
| Total expenditure | | 5,629 | 5,721 |
| **Profit(Loss) before tax** | | (77) | 47 |
| Income tax expense(credit) | 7 | (26) | 8 |
| **Net Profit(Loss) from continuing operations** | | (51) | 39 |
| Other Comprehensive Income | | - | - |
| **Total Comprehensive Income** | | (51) | 39 |
| | | ======= | ======= |
| Earnings per share from continuing operations (cents per share) | | (3.27) | 2.46 |

The accompanying notes and accounting policies form an integral part of these audited financial statements.

# Statement of Changes in Equity

**For the Year Ended 30 June 2014**

| | Note | Year Ended 30 June 2014 $'000 | Year Ended 30 June 2013 $'000 |
|---|---|---|---|
| **Equity at beginning of year** | | 1,764 | 1,725 |
| **Comprehensive Income** | | | |
| Profit/(Loss) from continuing operations | | (51) | 39 |
| **Total Comprehensive Income** | | (51) | 39 |
| Less distribution to owners | 5 | - | - |
| **Equity at the end of the year** | | 1,713 | 1,764 |

The accompanying notes and accounting policies form an integral part of these audited financial statements.

# Balance Sheet
**As at 30 June 2014**

| | Note | 30 June 2014 $'000 | 30 June 2013 $'000 |
|---|---|---|---|
| **Equity** | | | |
| Share capital | 8 | 1,572 | 1,572 |
| Retained earnings | 9 | 141 | 192 |
| **Total Equity** | | 1,713 | 1,764 |
| **Current Liabilities** | | | |
| Cash and cash equivalents | 17 | - | 69 |
| Provision for employee entitlements | 11 | 321 | 295 |
| Trade and other payables | 10 | 281 | 299 |
| Other current liabilities (provisions) | 11 | 100 | 44 |
| Shareholders advances | 12 | 325 | 324 |
| Current portion-term borrowings | 21 | - | - |
| Total current liabilities | | 1,027 | 1,031 |
| **Non-Current Liabilities** | | | |
| Deferred tax liability (asset) | 13 | 25 | 43 |
| Term borrowings | 21 | 755 | 828 |
| Total non-current liabilities | | 780 | 871 |
| **Total Liabilities** | | 1,807 | 1,902 |
| **TOTAL EQUITY AND LIABILITIES** | | 3,520 | 3,666 |

The accompanying notes and accounting policies form an integral part of these audited financial statements.

# Balance Sheet (continued)
**As at 30 June 2014**

| | Note | 30 June 2014 $'000 | 30 June 2013 $'000 |
|---|---|---|---|
| **Current Assets** | | | |
| Cash and cash equivalents | **17** | 128 | - |
| Trade and other receivables | **18** | 75 | 111 |
| Inventories | **19** | 177 | 236 |
| Tax refund receivable | | 16 | 8 |
| GST refund receivable | | - | - |
| Total current assets | | 396 | 355 |
| **Non-Current Assets** | | | |
| Property, plant and equipment | **20** | 3,124 | 3,311 |
| Total non-current assets | | 3,124 | 3,311 |
| **TOTAL ASSETS** | | 3,520 | 3,666 |

For and on behalf of the Board of Directors

G R Thomas
Chairman
Date: ~~10~~ 25 September 2014

G M T Williams
Deputy Chairman
Date: ~~10~~ 25 September 2014

The accompanying notes and accounting policies form an integral part of these audited financial statements.

# Notes to the Financial Statements

**For the Year Ended 30 June 2014**

## 1. REPORTING ENTITY

The financial statements presented here are for the company Taieri Gorge Railway Limited.

Taieri Gorge Railway Limited is a Council Controlled Trading Organisation as defined in the Local Government Act 2002. The company, incorporated in New Zealand under the Companies Act 1993, is 72% owned by the ultimate parent of the group, Dunedin City Council. There are only two shareholders with the remaining 28% owned by Otago Excursion Train Trust.

The financial statements of Taieri Gorge Railway Limited are for the year ended 30 June 2014.

The registered address of the company is 50 The Octagon, Dunedin.

Taieri Gorge Railway Limited is a profit orientated entity.

These financial statements are presented in New Zealand dollars because that is the currency of the primary economic environment in which the company and group operates.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Statement of Compliance

The annual financial statements have been prepared in accordance with NZ GAAP. They comply with New Zealand Equivalents to IFRS, and other applicable Financial Reporting Standards, as appropriate for profit orientated entities that qualify for and take advantage of differential reporting concessions.

The company qualifies for Differential Reporting exemptions as it has no public accountability and is not large as defined in the differential reporting framework. All available reporting exemptions, except deferred tax, allowed under the Framework for Differential Reporting have been adopted.

The Minister of Commerce has approved a new Accounting Standards Framework (including a Tier Strategy) developed by the External reporting Board (XRB). Under this Accounting Standards Framework, the company has determined that it is a 'tier three' entity. This is because it is not publically accountable and is not large. This means that the company can continue to apply NZ IFRS differential reporting for these financial statements, and the company has chosen to do this. The company will be required to move to 'tier two' and apply the new NZ IFRS Reduced Disclosure Regime for the 2015/16 accounts at the latest, and can decide to move to this regime earlier. The company has decided to delay adoption of revisions to NZ IFRS13 *Fair Value Measurement* until the company moves to 'tier two'.

The financial statements were authorised for issue by the directors on ~~10~~ 25 September 2014.

### Basis of Accounting

The financial statements have been prepared on the historic cost basis.

The accounting policies set out below have been applied consistently to all periods in these financial statements.

### Change of Accounting Policies

There has been no change in accounting policies

### Standards Issued but not yet Effective

A number of accounting standards have been issued but as they are not yet compulsory they have not been applied to this set of accounts. The standard to be applied to future financial statements is NZ IFRS9 which replaces IAS39. IAS39 is being replaced through three phases: phase 1 classification and measurement, phase 2 impairment methodology and phase 3 hedge accounting. The new standard is required to be adopted for the year ended 30 June 2016.

### Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets and disposal groups are not depreciated while they are classified as held for sale.

### Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and GST.

Revenue from services rendered is recognised when it is probable that the economic benefits associated with the transaction will flow to the entity. The stage of completion at balance date is assessed based on the value of services performed to date as a percentage of the total services to be performed.

Sales of goods are recognised when significant risks and rewards of owning the goods are transferred to the buyer, when the revenue can be measured reliably and when management effectively ceases involvement or control.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

### Construction Contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.
When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

### The Company As Lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the company's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

### The Company As Lessee

Assets held under finance leases are recognised as assets of the company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

### Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

### Employee Entitlements

Entitlements to salary and wages and annual leave are recognised when they accrue to employees. This includes the estimated liability for salaries and wages and annual leave as a result of services rendered by employees up to balance date at current rates of pay.

Entitlements to long service leave are calculated on an actuarial basis and are based on the reasonable likelihood that they will be earned by employees and paid by the company.

Liabilities for sick leave are recognised to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. This calculation is based on the value of excess sick leave taken with the previous twelve months.

### Good and Service Tax (GST)

All items in the financial statements are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax then 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 balance sheet.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

### Critical accounting estimates and assumptions

Estimates and judgments are continually evaluated and are based on historical experience and other factors.

The entity makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, not necessarily equal the actual results.

### Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### Property, Plant and Equipment

Property plant and equipment are those assets held by the company for the purpose of carrying on its business activities on an ongoing basis.

All property, plant and equipment, is stated at cost less accumulated depreciation and any accumulated impairment losses.

**Self constructed assets** include the direct cost of construction to the extent that they relate to bringing the fixed assets to the location and condition for their intended service.

**Depreciation** is charged so as to write off the cost or valuation of assets, other than land, properties under construction and capital work in progress, on the straight-line basis. Rates used have been calculated to allocate the asset's cost or valuation less estimated residual value over their estimated remaining useful lives.

Depreciation of these assets, commences when the assets are ready for their intended use.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, over the term of the relevant lease.

Depreciation rates and methods used are as follows:

| | Rate | Method |
|---|---|---|
| Buildings | 6% to 17% | Straight Line |
| Rolling stock | 2% to 50% | Straight Line |
| Plant and equipment | 3% to 50% | Straight Line |
| Office equipment | 5% to 48% | Straight Line |
| Vehicles | 8% to 20% | Straight Line |
| Track | 0% to 50% | Straight Line |
| Construction in progress | no depreciation charged | |

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

### Impairment of assets excluding goodwill

At each balance sheet date, the company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease to the extent of any previous revaluation increase for that asset (or cash generating unit) that remains in the revaluation reserve. Any additional impairment is immediately transferred to the statement of comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

### Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts or short term borrowings are shown within the cash or cash equivalents figure in either the current liabilities or current assets of the balance sheet.

### Financial Instruments

Financial assets and financial liabilities are recognised on the company's balance sheet when the group becomes a party to the contractual provisions of the instrument. Financial instruments are classified into four categories: financial assets at fair value through profit or loss, held-to maturity investments, loans and receivables and financial assets at fair value through equity. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

### Trade and other receivables

Trade and other receivables are initially measured at fair value and subsequently valued at amortised cost using the effective interest method, less any provision for impairment.

### Trade and other payables

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

### Borrowings

Borrowings are initially recorded net of directly attributable transaction costs and are measured at subsequent reporting dates at amortised cost. Finance charges, premiums payable on settlement or redemption and direct costs are accounted for on an accrual basis to the Statement of Comprehensive Income using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

### Provisions

A provision is recognised in the balance sheet when the company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions for restructuring costs are recognised when the company has a detailed formal plan for the restructuring that has been communicated to affected parties.

**3. SEASONALITY OF OPERATIONS**

The profitability and cash flow of the company contains a strong seasonal element in accordance with the tourist season for the region which is at its strongest between the months of October through to April.
The impact of this bias is that the company will typically report a deficit for the first half of the year and any surplus is generated in the second half of the year.

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **4. REVENUE** | | |
| Taieri Gorge Limited tourist train | 2,862 | 2,763 |
| Excursions/Charters | 2,347 | 2,650 |
| Dunedin Silver Fern | 162 | 230 |
| Other | 152 | 111 |
| Agency Commission | 29 | 14 |
| | 5,552 | 5,768 |

Gross Revenue of the company inclusive of Travel Agency revenue was $5,710,137 (2013: $5,947,255)

**5. DIVIDENDS**

| | | |
|---|---|---|
| No dividends were paid by the company | - | - |

**6. EARNINGS PER SHARE**

| | | |
|---|---|---|
| Earnings per share from continuing operations (cents per share) | (3.27) | 2.46 |
| Number of shares | 1,571,900 | 1,571,900 |

| **7. INCOME TAX** | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Operating surplus/(loss) before tax - continuing operations | (77) | 47 |
| Operating surplus/(loss) before income tax | (77) | 47 |
| Tax thereon at 28% | (22) | 13 |
| *Plus / (Less) the Tax Effect of Differences* | | |
| Revenue not liable for taxation | - | - |
| Expenditure not deductible for taxation | - | 8 |
| Under/(over) provision in prior years | (4) | (13) |
| Tax effect of differences | (4) | (5) |
| **Tax expense** | (26) | 8 |

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Effective tax rate | 34% | 18% |
| *Represented by* | | |
| Current tax provision | | |
| Prior period adjustment | (8) | (13) |
| Current tax movement | - | 22 |
| Current deferred tax provision | | |
| Deferred tax movement | (22) | (1) |
| (Under) /over tax provision in prior years | 4 | - |
| Income tax | (26) | 8 |

**Imputation Credit Account**

| | | |
|---|---|---|
| Balance at the beginning of the year | 222 | 219 |
| Taxation payment / (refund) | - | - |
| Prior period adjustment | - | 3 |
| Balance at the end of the year | 222 | 222 |
| Expected future movement | (17) | (8) |
| | 205 | 214 |

## 8. EQUITY – Share Capital

**Issued Capital**

| | | |
|---|---|---|
| 1,571,900 ordinary shares | 1,572 | 1,572 |

There is only one class of share. They are fully paid and carry the right to dividends, with 1,132,300 shares owned by Dunedin City Holdings Limited and 439,600 shares owned by the Otago Excursion Train Trust.

## 9. RETAINED EARNINGS

| | | |
|---|---|---|
| Balance at the beginning of the year | 192 | 153 |
| Net surplus for the year | (51) | 39 |
| Dividend distributions | - | - |
| Balance at the end of the year | 141 | 192 |

## 10. TRADE AND OTHER PAYABLES

| | | |
|---|---|---|
| Trade payables | 278 | 296 |
| Due to related parties | 3 | 3 |
| | 281 | 299 |

The directors consider the carrying amount of trade payables approximates their fair value.

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **11. OTHER LIABILITIES** | | |
| Accruals/Debtor prepayments | 100 | 44 |
| Employee entitlements | 321 | 295 |
| | 421 | 339 |

**12. SHAREHOLDERS ADVANCES**

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Otago Excursion Train Trust | 325 | 324 |
| Total Shareholders Advances | 325 | 324 |

Shareholders advances are repayable on demand. No interest has been paid on these advances in the current or comparative period.

**13. DEFERRED TAX**

| | 2014 $'000 | 2014 $'000 | 2014 $'000 | 2014 $'000 | 2014 $'000 | 2014 $'000 |
|---|---|---|---|---|---|---|
| | *Opening Balance Sheet* | *Charged to Equity* | *Charged to Income* | *Closing Balance Sheet Assets* | *Liabilities* | *Net* |
| Property, plant and equipment | 118 | - | 11 | - | 129 | 129 |
| Employee entitlements | (71) | - | (7) | (78) | - | (78) |
| Provisions and adjustments | (4) | - | - | (4) | - | (4) |
| Tax losses | - | - | (22) | (22) | - | (22) |
| Balance at the end of the year | 43 | - | (18) | (104) | 129 | 25 |

| | 2013 $'000 | 2013 $'000 | 2013 $'000 | 2013 $'000 | 2013 $'000 | 2013 $'000 |
|---|---|---|---|---|---|---|
| | *Opening Balance Sheet* | *Charged to Equity* | *Charged to Income* | *Closing Balance Sheet Assets* | *Liabilities* | *Net* |
| Property, plant and equipment | 109 | - | 9 | - | 118 | 118 |
| Employee entitlements | (61) | - | (10) | (71) | - | (71) |
| Provisions and adjustments | (4) | - | - | (4) | - | (4) |
| Balance at the end of the year | 44 | - | (1) | (75) | 118 | 43 |

It is probable that the company will generate sufficient tax profit in the future to offset its tax losses and temporary differences.

| | 2014 $'000 | 2013 $'000 |
|---|---|---|

## 14. CONTINGENT LIABILITIES AND ASSETS

The company has no contingent liabilities and assets (2013: nil).

## 15. CAPITAL EXPENDITURE COMMITMENTS

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Capital expenditure committed at balance date but not provided for in the financial statements | 30 | 30 |

## 16. LEASE COMMITMENTS

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Minimum Operating Lease Payments | | |
| Payable within one year | 48 | 73 |
| Payable between one to five years | 19 | 43 |
| Payable later than five years | - | - |
| | 67 | 116 |

Significant leasing arrangements include:

Lease of railway workshop ex NZ Railways Corporation was from 1 July 2005 until 30 June 2008 at $110,000 p.a. currently month to month at same rental pending negotiation of a new agreement.
Lease of Dunedin Railway Station offices from Dunedin City Council commencing 14 December 2008 for 6 years at $44,300 p.a. with 2 further rights to a renewed term of 6 years each with a final expiry date of 13 December 2026. A one year lease from KiwiRail of a railcar and a carriage with a monthly/kilometre fee was commenced during the 2012/13 year with total lease fees paid amounting to $50 000. This railcar/carriage lease has no ongoing commitment as at 30 June 2014.
Actual operating lease payments in the year amounted to $255,000 (2013: $251,000)

## 17. CASH AND CASH EQUIVALENTS

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Cash and Bank | 128 | (69) |

Cash and short-term deposits in the current year comprise cash held by the company and short-term deposits with Bank of New Zealand. In the previous year this included short-term deposits or short-term borrowings with Dunedin City Treasury Ltd which were covered under an evergreen borrowing facility of 2 years reviewed every year. The current year has an evergreen term facility with Dunedin City Treasury Limited. The carrying amount of these assets approximates their fair value. Short term deposits are made at call deposit rates with an original maturity of three months or less.

A sum of $10,000 exists as the Star Steam Fund within the operating bank account and constitutes a restriction on cash specifically for the promotion of steam trips.

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **18. TRADE AND OTHER RECEIVABLES** | | |
| Trade receivables | 74 | 110 |
| | 74 | 110 |
| Due from related Parties | 1 | 1 |
| | 75 | 111 |

The directors consider that the carrying amount of the trade and other receivables approximates their fair value.

## 19. INVENTORIES

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Raw materials and stores | 162 | 218 |
| Consumables for resale | 15 | 18 |
| Total Inventories | 177 | 236 |

**20. PROPERTY, PLANT AND EQUIPMENT**

| | 2014 | 2014 | 2014 | 2014 | 2014 | 2014 | 2014 |
|---|---|---|---|---|---|---|---|
| | Buildings | Rolling Stock | Plant & Equipment | Office Equipment | Vehicles | Track | Sub -Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Cost or Valuation** | | | | | | | |
| Balance at beginning of period | 25 | 4,076 | 676 | 325 | 244 | 397 | 5,743 |
| Increase through acquisition | - | - | - | - | - | - | - |
| Purchases/revaluation | - | 345 | 29 | 39 | 4 | - | 417 |
| Sales/disposals | - | (21) | - | - | - | - | (21) |
| Transfer to assets held for sale | - | - | - | - | - | - | - |
| Balance at end of period | 25 | 4,400 | 705 | 364 | 248 | 397 | 6,139 |
| **Accumulated depreciation** | | | | | | | |
| Balance at beginning of period | 21 | 1,817 | 436 | 191 | 135 | 184 | 2,784 |
| Depreciation | - | 218 | 40 | 23 | 12 | - | 293 |
| Impairment | - | - | - | - | - | - | - |
| Sales/prior period adjustment | 1 | - | 1 | - | (1) | - | 1 |
| Transfer to assets held for sale | - | - | - | - | - | - | - |
| | 22 | 2,035 | 477 | 214 | 146 | 184 | 3,078 |
| Balance at end of period | 3 | 2,365 | 228 | 150 | 102 | 213 | 3,061 |
| Comprising - Cost | 3 | 2,365 | 228 | 150 | 102 | 213 | 3,061 |
| Valuation | - | - | - | - | - | - | - |

| | 2014 | 2014 | 2014 |
|---|---|---|---|
| | Sub -Total | Work in Prog. | Total |
| | $'000 | $'000 | $'000 |
| **Cost** | | | |
| Balance at beginning of period | 5,743 | 353 | 6,096 |
| Increase through acquisition | - | - | - |
| Net Purchases/ revaluation | 417 | - | 417 |
| Sales/prior period adjustment | (21) | (290) | (312) |
| Transfer to assets held for sale | - | - | - |
| Balance at end of period | 6,139 | 63 | 6,202 |
| **Accumulated depreciation** | | | |
| Balance at beginning of period | 2,784 | - | 2,784 |
| Depreciation | 293 | - | 293 |
| Impairment | - | - | - |
| Sales/prior period adjustment | 1 | - | 1 |
| Transfer to assets held for sale | - | - | - |
| | 3,078 | - | 3,078 |
| Balance at end of period | 3,061 | 63 | 3,124 |
| Comprising - Cost | 3,061 | 63 | 3,124 |
| Valuation | - | - | - |

## 20. PROPERTY, PLANT AND EQUIPMENT

| | 2013 Buildings $'000 | 2013 Rolling Stock $'000 | 2013 Plant & Equipment $'000 | 2013 Office Equipment $'000 | 2013 Vehicles $'000 | 2013 Track $'000 | 2013 Sub -Total $'000 |
|---|---|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | | | |
| Balance at beginning of period | 25 | 3,567 | 614 | 321 | 244 | 397 | 5,168 |
| Increase through acquisition | - | - | - | - | - | - | - |
| Purchases/revaluation | - | 509 | 62 | 4 | - | - | 575 |
| Sales/prior period adjustment | - | - | - | - | - | - | - |
| Transfer to assets held for sale | - | - | - | - | - | - | - |
| Balance at end of period | 25 | 4,076 | 676 | 325 | 244 | 397 | 5,743 |
| **Accumulated depreciation** | | | | | | | |
| Balance at beginning of period | 21 | 1,629 | 401 | 167 | 123 | 184 | 2,525 |
| Depreciation | - | 188 | 35 | 24 | 12 | - | 259 |
| Impairment | - | - | - | - | - | - | - |
| Sales/prior period adjustment | - | - | - | - | - | - | - |
| Transfer to assets held for sale | - | - | - | - | - | - | - |
| | 21 | 1,817 | 436 | 191 | 135 | 184 | 2,784 |
| Balance at end of period | 4 | 2,259 | 239 | 134 | 109 | 213 | 2,958 |
| Comprising - Cost | 4 | 2,259 | 239 | 134 | 109 | 213 | 2,958 |
| Valuation | - | - | - | - | - | - | - |

| | 2013 Sub -Total $'000 | 2013 Work in Prog. $'000 | 2013 Total $'000 |
|---|---|---|---|
| **Cost** | | | |
| Balance at beginning of period | 5,168 | 340 | 5,508 |
| Increase through acquisition | - | - | - |
| Purchases/ revaluation | 575 | - | 575 |
| Sales/prior period adjustment | - | 13 | 13 |
| Transfer to assets held for sale | - | - | - |
| Balance at end of period | 5,743 | 353 | 6,096 |
| **Accumulated depreciation** | | | |
| Balance at beginning of period | 2,525 | - | 2,525 |
| Depreciation | 259 | - | 259 |
| Impairment | - | - | - |
| Sales/prior period adjustment | - | - | - |
| Transfer to assets held for sale | - | - | - |
| | 2,784 | - | 2,784 |
| Balance at end of period | 2,958 | 353 | 3,311 |
| Comprising - Cost | 2,958 | 353 | 3,311 |
| Valuation | - | - | - |

## 21. TERM BORROWINGS

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Dunedin City Treasury Limited | 755 | 828 |
| | 755 | 828 |
| Current | 0 | 0 |
| Non current | 755 | 828 |

The directors estimate the fair value of the company's borrowings to be at their carrying value.

## 22. FINANCIAL RISK

Dunedin City Treasury Limited provides financial services to the company and to our majority shareholder, co-ordinates access to domestic financial markets, monitors and manages the financial risks relating to the operations of the company. These risks include market risk, credit risk and liquidity risk.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. The company's credit risk is mainly attributable to its trade receivables. The amounts presented in the statement of comprehensive income are net of allowances for doubtful debts. The company has no significant concern with creditors as exposure is spread over a number of counterparties and customers.

Liquidity risk represents the company's ability to meet its contractual obligations. The company evaluates its liquidity requirements on an ongoing basis and has credit lines to meet these requirements.

### 22.1 Capital Management Strategy

The company manages its capital to ensure that the company will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The Economic Corporate Goal listed in the Statement of Intent of the company is to attain a financial performance, as measured by generally accepted standards for railway tourist operations that represents an acceptable rate of return on investment for its shareholders taking into account the stage of development of the company. It also includes the goal to ensure income growth and enhancement through the development of new markets and the provision and development of on and off train services and facilities.

The intentions of the company in respect of distributions for each three-year period are disclosed in the annual Statement of Intent submitted to the Council in public.

## 23. RELATED PARTY TRANSACTIONS

Taieri Gorge Railway Limited is 72% owned by Dunedin City Holdings Limited. Dunedin City Holdings Limited is a wholly owned subsidiary of the Dunedin City Council. The other shareholder in the Company is the Otago Excursion Train Trust.

Taieri Gorge Railway Limited undertakes transactions (including a forgiven shareholders advance) with the Dunedin City Council, other Dunedin City Council controlled entities and Otago Excursion Train Trust on an arms length commercial basis with favourable interest rates being negotiated with Dunedin City Treasury Limited.

Amounts receivable from and payable to related parties at balance date are disclosed in notes 10, 12, 18 and 21.

**Major Transactions with the Dunedin City Council Group**

Sales of services to the Dunedin City Council Group:

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Ticket sales (Visitor Centre) | 122 | 127 |
| | 122 | 127 |
| Loss offset to Group | - | - |

Purchases of goods and services from the Dunedin City Council Group:

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Rates, events, leases (Dunedin City Council) | 67 | 69 |
| Director's Fees (Dunedin City Holdings Limited) | 5 | 11 |
| Engineering services (Delta Utility Services Limited) | 20 | 1 |
| Interest paid (Dunedin City Treasury Limited) | 73 | 62 |
| Subvention payment (Dunedin Venues Management Limited) | - | 14 |
| | 165 | 157 |

**Major Transactions with the Otago Excursion Train Trust**

Sales of services to the Otago Excursion Train Trust:

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Charters / Sales | - | 3 |
| Equipment reimbursed by Shareholders Advance | - | - |
| | - | 3 |

Purchases of goods and services from the Otago Excursion Train Trust:

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Ticket Sales /Directors fees | 8 | 38 |

**Transactions with companies in which key management personnel or directors have an interest and with close members of the family of key management personnel or directors:**

Key management personnel within the company include the chief executive and directors.

During the course of the year:

Mr J M Chapman, Director of Taieri Gorge Railway Limited until September 2013, carried out contract labour on the daily train and in our maintenance division amounting to $13,684 (2013: $16,045).

Mr A W Baylis, Director of Dunedin City Holdings Limited until October 2013, is also a Director of Blackhead Quarries Limited with whom purchases of $3,963 (2013: $322) were undertaken, and Palmers Mechanical Limited with whom purchases of $nil (2013: $1,619) were undertaken.

Mr G W Crombie, Director of Dunedin City Holdings Limited, is also a Director of Action Engineering Limited with whom purchases of $7,604 (2013: $47,442) were undertaken.

Mrs K E Grant, Director of Dunedin City Holdings Limited, is also a Director of Otago Polytechnic with whom product sales amounting to $1,892 (2013:$777) were made.

Mr J D Shale, Director Dunedin City Holdings Limited until October 2013, is also a Director of Oceana Gold Corporation with whom purchases of $nil (2013: $4,967) were undertaken.

Except for these transactions, no other directors or senior management have entered into related party transactions with the company. The amounts outstanding at year end are payable on normal trading terms.

No related party debts have been written off or forgiven during the period.

**Compensation of key management personnel**

The remuneration of directors and other members of key management during the year was as follows:

| | **2014**<br>**$'000** | **2013**<br>**$'000** |
|---|---|---|
| Directors' Fees | 72 | 73 |
| Chief Executive (total remuneration) | 130 | 130 |

## STATEMENT OF SERVICE PERFORMANCE

The following is a statement of service performance relating to specific objectives listed in the Statement of Intent for the year ended 30 June 2014:

### *General*

6.1 **Customer Service**

To achieve customer survey responses with overall satisfaction levels greater than 90%.

*Achieved. Our online customer survey has returned positive responses with satisfaction levels at 90.88%.*

6.2 **Resource Use**

To use the resources of the company in such a way to increase cash flows from operations each year taking into account market influences out of the control of the Company.

*Achieved. Cash inflows to the company from operating activities increased by 8.3%.*

### *Economic*

6.3 **Financial Performance**

To achieve an accounting result which shows profitability and a positive cash flow for the year ending 30 June 2014.

*Achieved for cash flow with company showing a positive cash flow for the year and repaying $73K of revolving credit over the year. Not achieved for profitability.*

6.4 **Growth**

To achieve margin growth on our daily train and within the travel agency through introduction of additional or enhanced products and services.

*Achieved. Margins increased in both divisions of the company in all income streams.*

### *Safety*

*6.5* **Regulatory**

To undertake an annual Safety Audit as required by NZTA and to pass this safety audit and be issued with a Rail Service Licence as at 30 June 2014.

*Achieved. The company undertook a Safety Audit in December 2013 and retains a Rail Service Licence as at 30 June 2014.*

*6.6* **Management**

To maintain a record of key items of the Internal Audit system and to ensure that critical items such as track and bridge inspections, and rolling stock inspections and certification are completed within 2 months of their scheduled dates.

*Achieved. Internal Audit System updated during the year as well as the forward track inspection programme with all critical items meeting the requirement of completion within 2 months of their scheduled dates.*

6.7 **Operating Environment**

To target a minimal accident record not exceeding one work related accident per 100,000 hours worked and the number of lost time hours not exceeding 0.05% of total hours worked for the year ending 30 June 2014.

*Not achieved. There were four lost time work-related accidents with lost time hours at 0.15% of total hours worked.*

## *Social and Environmental*

6.8 **Good Employer**

To ensure there are no breaches of the company's EEO policy.

*Achieved. There were no reports of EEO breaches.*

6.9 **Volunteers**

To maintain the level of support provided by volunteers in the year to 30 June 2014 at least at the level of that in the previous year measured from the number of cruise visits and the ability to staff these trains with volunteers.

*Not achieved. All cruise trains were successfully staffed with volunteers. However, there was a reduced contribution by volunteers to the operations of TGRL in line with an 8.8% reduction in cruise ship passengers and a reallocation of train preparation work from volunteer to TGRL staffing. Otago Excursion Train Trust kept records and recorded 9 370 manhours of voluntary work versus 15 560 in the previous year.*

6.10 **Corporate Citizen**

To have carried out a weed and pest control programme, and to continually review company operations to identify any potential environmental issues by 30 June 2014.

*Achieved. Weed and possum control operations continued during the year and continual reviews take place on environmental hazards in accordance with our Safety System and Health and Safety Committee management.*

6.11 **Heritage**

To enhance the heritage experience by continuing to preserve the heritage aspects of the line and to recognise the heritage nature of rolling stock, structures in the gorge and at Middlemarch, to be measured by any adverse comment from public or from staff.

*Achieved. The company has a policy of not disturbing the heritage nature of aspects of the line and there have been no reports of disturbance to heritage items.*

6.12 **Emission Monitoring**

To carry out a survey of carbon-based fuel usage and electricity usage in the year to 30 June 2014. To record passenger numbers carried per litre of fuel used with a view to improving this figure over time.

*Achieved with a record of fuel and electricity usage forwarded to Dunedin City Holdings Limited for Group consolidation.*
*Not achieved for fuel usage with passengers carried per litre of fuel used reducing from 0.283 to 0.277.*

## DIRECTORY
## As at 30 June 2014

DIRECTORS
G R Thomas (Chairman – appointed December 2013)
G M T Williams (Deputy Chairman)
Dr. J D Holmes
F J McCall
Hon. Stan Rodger
D W Wood

CHIEF EXECUTIVE
M J Bond

REGISTERED OFFICE
50 The Octagon
Dunedin
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Phone: 0064-3-477-4449
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Email: railway@taieri.co.nz
Website: www.taieri.co.nz

BANKERS
Bank of New Zealand

SOLICITORS
Anderson Lloyd Lawyers

TAXATION ADVISERS
Deloitte

AUDITOR
Audit New Zealand on behalf of
The Auditor-General

# Independent Auditor's Report

## To the readers of Taieri Gorge Railway Limited's financial statements and statement of service performance for the year ended 30 June 2014

The Auditor-General is the auditor of Taieri Gorge Railway Limited (the company). The Auditor-General has appointed me, Ian Lothian, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and statement of service performance of the company on her behalf.

We have audited:

- the financial statements of the company on pages 8 to 27, that comprise the balance sheet as at 30 June 2014, the statement of comprehensive income, and statement of changes in equity for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of service performance of the company on pages 28 to 30.

## Opinion

### Financial statements and statement of service performance

In our opinion:

- the financial statements of the company on pages 8 to 27:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of the company's:
    - financial position as at 30 June 2014; and
    - financial performance for the year ended on that date; and
- the statement of service performance of the company on pages 28 to 30:
  - complies with generally accepted accounting practice in New Zealand; and
  - gives a true and fair view of the company's service performance achievements measured against the performance targets adopted for the year ended 30 June 2014.

### Other legal requirements

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company as far as appears from an examination of those records.

Our audit was completed on 25 September 2014. 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 and statement of service performance are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, would affect a reader's overall understanding of the financial statements and statement of service performance. 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 and statement of service performance. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and statement of service performance whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company's financial statements and statement of service performance that give a true and fair view of the matters to which they relate. We consider internal control 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 company'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 all disclosures in the financial statements and statement of service performance; and
- the overall presentation of the financial statements and statement of service performance.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance.

In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. 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 preparing financial statements and a statement of service performance that:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the company's financial position, and financial performance; and
- give a true and fair view of its service performance.

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements and a statement of service performance 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 and statement of service performance, whether in printed or electronic form.

The Board of Directors' responsibilities arise from the Local Government Act 2002 and the Financial Reporting Act 1993.

## Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and section 69 of the Local Government Act 2002.

## 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 company.

Ian Lothian

Ian Lothian
Audit New Zealand
On behalf of the Auditor-General
Dunedin, New Zealand