TAIERI GORGE RAILWAY LIMITED

Annual Report
For the Year Ended
30 June 2013

CONTENTS

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.

HIGHLIGHTS OF THE YEAR

- Nett profit increase of 78% to $38,687
- Revenue increase of 4.5% to $5.77 million, a record for the company
- Cruise ship passengers carried on shore excursion trains increased by 2.8% from 16,709 to 17,171 - a record for the company.
- Total passengers carried increase by 0.7% from 79,958 to 80,488 assisted by the introduction of Dunedin Silver Fern railcar services.
- Lease from KiwiRail of the Dunedin Silver Fern railcar with 6,499 passengers carried in this inaugural year.
- Excursion and Charter train income increases by 4.6% over last year to reach a record $2.65 million.
- Completion of two major carriage refurbishment projects and completion of a generator van allowing the retirement of older high maintenance vehicles.

DIRECTORS' REPORT
For the Year Ended 30 June 2013

The directors are pleased to present the Annual Report together with the financial statements of the company for the year ended 30 June 2013.

The company achieved an improved result despite the general tourist market remaining weak and falling below the levels of the previous year.
The market continues to be affected as a result of the Christchurch earthquakes while there appears to be a growing trend for shorter visits to New Zealand.
As a result there tends to be lower visitor numbers to regional areas.

During the year the company has continued to invest in the maintenance and replacement of assets which are essential to improving safety, reliability and capacity in the future. A further carriage was completely refurbished, and a new catering carriage came into service. It is pleasing to note, also, that our locomotive fleet is in better condition than it has ever been in the past. The company is working through a strategic improvement of its current management structure in order to achieve improved efficiencies.

In spite of the impact of current market conditions the board remains cautiously optimistic. The coming summer season is likely to show signs of 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 maximise revenue on cruise ship days.

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.
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 approximately one hundred and twenty 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.

J.E. Farry
Chairman

DIRECTORS' REPORT
For the Year Ended 30 June 2013

Results for the Year Ended 30 June 2013

	Year Ended 30 June 2013 $'000	**Year Ended 30 June 2012 $'000**
Operating Surplus continuing operations pretax	47	35
Income Tax Expense	8	13
Net Surplus from continuing operations	39	22

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 49.0% and a net worth of $1,764,205 at 30 June 2013.

Dividends

The directors have recommended that no dividend be paid for the year ended 30 June 2013.

Reserves

There have been no transfers made to reserves during the year to 30 June 2013.

Review of Operations

Taieri Gorge Railway Limited operates in three main divisions being the daily tourist train, the Taieri Gorge Limited, Excursions and Charter train services, and a domestic travel agency. There is also minor income from contract work.

The Taieri Gorge Limited

The Taieri Gorge Limited operates in the international and domestic tourism market and has experienced another challenging year. International visitor numbers to New Zealand in the holiday market fell 0.5% but the South Island suffered further as a result of the Christchurch earthquake flow on effect and the tendency for shorter stays in New Zealand. Our daily tourist train carried 47,986 passengers, which was a 4.9% decrease on the previous year. Revenue in this division fell by 2.3% to $2,762,791. 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.

DIRECTORS' REPORT
For the Year Ended 30 June 2013

Excursions and Charters

The Excursions and Charters division experienced another good year as a result of a buoyant cruise ship market. The number of cruise ship passengers carried increased by 2.8% to 17,171 which was a record for the company. Revenue in this division rose by 4.6% to $2,649,758. The remainder of the excursions and charter business has shown a recovery with a resurgence of corporate charter work and success in excursion initiatives during the off-peak period. A lease of a 94 seat Silver Fern railcar from KiwiRail has proved successful in this inaugural year with 6,499 passengers carried and a reasonable margin achieved from this operation.

Marketing

Our Marketing spend was increased by 6.4% over the previous year as we introduced initiatives to tackle the weak tourist market and the changing cruise ship market. The task has been to keep ahead of the weak South Island tourist market and to refocus effort as a result of a downturn in coach tours. 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. A rebuild of our website is under way so that it becomes totally compatible with new digital technology and a new live reservation system is being introduced. This new reservation system will enhance product selection and company income by maximising returns per seat sold and improving presales cash flow. We have focused our marketing efforts to the key short to medium term markets being domestic New Zealand, Australia and Asia in general. The company is seen as a leader in the Asian market sector and this is likely to be our leading growth market in the short to medium term.

Maintenance

Our maintenance workload is significant as the locomotives, carriage fleet and track infrastructure age. 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. We have progressively introduced additional and more modern carriages into service as demand and finances have allowed and have now commissioned five of these carriages. These improvements will maximise our seating capacity and our service standards and will result in lower future carriage maintenance costs. Further major locomotive upgrades are programmed to ensure that our locomotive fleet remains in a reliable and serviceable condition. The need to maintain locomotive and carriage assets in reliable and safe condition is vital to the future of the company.

We have a supply of sleepers on hand for increased replacement as finances allow for this work to take place. This programme will continue to tackle the backlog from previous years then aim for a consistent sleeper input of around 1,200 sleepers on an annual basis over the long term. 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.

Strategic Initiatives

The company has introduced a number of business improvement measures in order to action our strategic plan which requires a better return per customer and a company concentration on doing what we are best at doing as a tourism experience business. This work has included a strategic review of our workshop maintenance division, employment of better qualified staff, a reduction of train services to improve the yield per train, the introduction of leased equipment as a cost effective means of gaining additional income and the retirement of older high maintenance carriages to reduce future costs.

Outlook

Business levels for the daily train have been weak 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

DIRECTORS' REPORT
For the Year Ended 30 June 2013

future cruise ship market is weaker as a result of voyage re-routing but remains relatively strong. Introduction of strategic initiatives both in income and cost divisions 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 2013 are attached to this report.

Directors' Interests in Contracts

No material contracts involving directors' interests were entered into during the year ended 30 June 2013 nor existed at the end of this period.

Information on the Directors of Taieri Gorge Railway Limited

Director	**Qualifications**	**Responsibilities**	**Remuneration**
J E Farry	Chairman 18 years Director 18 years	Chairman Appointed jointly by DCC/OETT	$17,250
G M T Williams	Deputy Chairman 11 years Director 15 years	Deputy Chairman Appointed jointly by DCC/OETT	$11,233
J M Chapman	Director 11 years	Non-Executive Director Appointed by OETT	$11,233
B R N Dodds	Director 1.5 years	Non-Executive Director Appointed by DCC	$11,233
F J McCall	Director 15 years	Non-Executive Director Appointed by DCC	$11,233
Hon. Stan Rodger	Director 3 years	Non-Executive Director Appointed by OETT	$11,233
			$73,415

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' REPORT
For the Year Ended 30 June 2013

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).

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 2013. 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 2013 is $18,410.

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:

J E Farry

Date: 11 September 2013

Statement of Comprehensive Income

For the Year Ended 30 June 2013

	Note	Year Ended 30 June 2013 $'000	Year Ended 30 June 2012 $'000
Continuing Operations			
Revenue	**4**	5,768	5,522
Total revenue		5,768	5,522
Less expenses			
Audit fees - audit of annual report		18	18
Contractors		1,000	965
Depreciation		259	253
Directors Fees		73	57
Employee expenses		2,380	2,381
Financial expenses		62	58
Raw materials and consumables used		984	973
Other expenses		945	782
Total expenditure		5,721	5,487
Profit before tax		47	35
Income tax expense	**7**	8	13
Net Profit from continuing operations		39	22
Other Comprehensive Income		-	-
Total Comprehensive Income		39	22
		=======	=======
Earnings per share from continuing operations (cents per share)		2.46	1.38

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 2013

	Note	Year Ended 30 June 2013 $'000	Year Ended 30 June 2012 $'000
Equity at beginning of year		1,725	1,704
Comprehensive Income			
Profit from continuing operations		39	22
Total Comprehensive Income		39	22
Less distribution to owners	**5**	-	-
Equity at the end of the year		1,764	1,726

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

Balance Sheet
As at 30 June 2013

	Note	30 June 2013 $'000	30 June 2012 $'000
Equity			
Share capital	**8**	1,572	1,572
Retained earnings	**9**	192	154
Total Equity		1,764	1,726
Current Liabilities			
Cash and cash equivalents	**17**	69	-
Provision for employee entitlements	**11**	295	258
Trade and other payables	**10**	299	307
Other current liabilities (provisions)	**11**	44	43
Shareholders advances	**12**	324	324
Current portion-term borrowings	**21**	-	12
Total current liabilities		1,031	944
Non-Current Liabilities			
Deferred tax liability (asset)	**13**	43	44
Term borrowings	**21**	828	662
Total non-current liabilities		871	706
Total Liabilities		1,902	1,650
TOTAL EQUITY AND LIABILITIES		3,666	3,376

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

Balance Sheet (continued)

As at 30 June 2013

	Note	30 June 2013 $'000	30 June 2012 $'000
Current Assets			
Cash and cash equivalents	**17**	-	56
Trade and other receivables	**18**	111	83
Inventories	**19**	236	230
Tax refund receivable		8	17
GST refund receivable		-	7
Total current assets		355	393
Non-Current Assets			
Property, plant and equipment	**20**	3,311	2,983
Total non-current assets		3,311	2,983
TOTAL ASSETS		3,666	3,376

For and on behalf of the Board of Directors

J E Farry
Chairman
Date: 11 September 2013

G M T Williams
Deputy Chairman
Date: 11 September 2013

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 2013

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 2013.

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 financial statements were authorised for issue by the directors on 11 September 2013.

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	5% 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.

	2013 $'000	2012 $'000
4. REVENUE		
Taieri Gorge Limited tourist train	2,763	2,827
Excursions/Charters	2,650	2,534
Dunedin Silver Fern	230	-
Other	111	134
Agency Commission	14	27
	5,768	5,522

Gross Revenue of the company inclusive of Travel Agency revenue was $5,947,255 (2012: $5,696,384)

5. DIVIDENDS

No dividends were paid by the company	-	-

6. EARNINGS PER SHARE

Earnings per share from continuing operations (cents per share)	2.46	1.38
Number of shares	1,571,900	1,571,900

7. INCOME TAX	2013 $'000	2012 $'000
Operating surplus - continuing operations	47	35
Operating surplus before income tax	47	35
Tax thereon at 28%	13	10
Plus / (Less) the Tax Effect of Differences		
Revenue not liable for taxation	-	(1)
Expenditure not deductible for taxation	8	-
Under/(over) provision in prior years	(13)	4
Tax effect of differences	(5)	3
Tax expense	8	13
Effective tax rate	18%	38%

	2013 $'000	2012 $'000
Represented by		
Current tax provision		
Prior period adjustment	(13)	-
Current tax movement	22	13
Current deferred tax provision		
Deferred tax movement	(1)	(4)
Under / (over) tax provision in prior years	-	4
Income tax	8	13

Imputation Credit Account

	2013 $'000	2012 $'000
Balance at the beginning of the year	219	219
Taxation payment / (refund)	-	-
Prior period adjustment	3	-
Balance at the end of the year	222	219
Expected future movement	(8)	-
	214	219

8. EQUITY – Share Capital

Issued Capital

	2013 $'000	2012 $'000
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

	2013 $'000	2012 $'000
Balance at the beginning of the year	153	132
Net surplus for the year	39	22
Dividend distributions	-	-
Balance at the end of the year	192	154

10. TRADE AND OTHER PAYABLES

	2013 $'000	2012 $'000
Trade payables	296	289
Due to related parties	3	18
	299	307

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

	2013 $'000	2012 $'000
11. OTHER LIABILITIES		
Accruals/Debtor prepayments	44	43
Employee entitlements	295	258
	339	301

12. SHAREHOLDERS ADVANCES

	2013 $'000	2012 $'000
Otago Excursion Train Trust	324	324
Total Shareholders Advances	324	324

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

13. DEFERRED TAX

	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

	2012 $'000	2012 $'000	2012 $'000	2012 $'000	2012 $'000	2012 $'000
	Opening Balance Sheet	*Charged to Equity*	*Charged to Income*	*Closing Balance Sheet Assets*	*Liabilities*	*Net*
Property, plant and equipment	98	-	11	-	109	109
Employee entitlements	(49)	-	12)	(61)	-	(61)
Provisions and adjustments	(5)	-	1	(4)	-	(4)
Balance at the end of the year	44	-	-	(65)	109	44

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

	2013 $'000	2012 $'000

14. CONTINGENT LIABILITIES AND ASSETS

The company has no contingent liabilities and assets (2012: nil).

15. CAPITAL EXPENDITURE COMMITMENTS

	2013 $'000	2012 $'000
Capital expenditure committed at balance date but not provided for in the financial statements	30	140

16. LEASE COMMITMENTS

	2013 $'000	2012 $'000
Minimum Operating Lease Payments		
Payable within one year	73	68
Payable between one to five years	43	73
Payable later than five years	-	-
	116	141

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 year to 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.
Actual operating lease payments in the year amounted to $251,000 (2012: $195,000)

17. CASH AND CASH EQUIVALENTS

	2013 $'000	2012 $'000
Cash and Bank	(69)	56

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.

	2013 $'000	2012 $'000

18. TRADE AND OTHER RECEIVABLES

	2013 $'000	2012 $'000
Trade receivables	110	79
	110	79
Due from related Parties	1	4
	111	83

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

19. INVENTORIES

	2013 $'000	2012 $'000
Raw materials and stores	218	210
Consumables for resale	18	20
Total Inventories	236	230

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	-	-	-
Net 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	-	-	-

20. PROPERTY, PLANT AND EQUIPMENT

	2012 Buildings $'000	2012 Rolling Stock $'000	2012 Plant & Equipment $'000	2012 Office Equipment $'000	2012 Vehicles $'000	2012 Track $'000	2012 Sub -Total $'000
Cost or Valuation							
Balance at beginning of period	25	3,297	551	321	225	397	4,816
Increase through acquisition	-	-	-	-	-	-	-
Purchases/revaluation	-	275	62	1	19	-	357
Sales/prior period adjustment	-	(5)	-	-	-	-	(5)
Transfer to assets held for sale	-	-	-	-	-	-	-
Balance at end of period	25	3,567	613	322	244	397	5,168
Accumulated depreciation							
Balance at beginning of period	21	1,463	368	143	98	184	2,277
Depreciation	-	171	33	25	24	-	253
Impairment	-	-	-	-	-	-	-
Sales/prior period adjustment	-	(5)	-	-	-	-	(5)
Transfer to assets held for sale	-	-	-	-	-	-	-
	21	1,629	401	168	122	184	2,525
Balance at end of period	4	1,938	212	154	122	213	2,643
Comprising - Cost	4	1,938	212	154	122	213	2,643
Valuation	-	-	-	-	-	-	-

	2012 Sub -Total $'000	2012 Work in Prog. $'000	2012 Total $'000
Cost			
Balance at beginning of period	4,816	341	5,157
Increase through acquisition	-	-	-
Purchases/ revaluation	357	(1)	356
Sales/prior period adjustment	(5)	-	(5)
Transfer to assets held for sale	-	-	-
Balance at end of period	5,168	340	5,508
Accumulated depreciation			
Balance at beginning of period	2,277	-	2,277
Depreciation	253	-	253
Impairment	-	-	-
Sales/prior period adjustment	(5)	-	(5)
Transfer to assets held for sale	-	-	-
	2,525	-	2,525
Balance at end of period	2,643	340	2,983
Comprising - Cost	2,643	340	2,983
Valuation	-	-	-

	2013 $'000	2012 $'000

21. TERM BORROWINGS

	2013 $'000	2012 $'000
Dunedin City Treasury Limited	828	662
Otago Excursion Train Trust	0	12
	828	674
Current	0	12
Non current	828	662

The company had entered into a term borrowing arrangement with its shareholder Otago Excursion Train Trust as a financing arrangement to produce a new sales/marketing DVD. The amount of the loan was $35 400 with an interest rate of 5.00% payable annually and the term of the loan was 3 years payable in 3 equal annual instalments from 1 June 2011 with the final payment on 1 June 2013. As at 30 June 2013 this loan was repaid in full.

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:

	2013 $'000	2012 $'000
Ticket sales (Visitor Centre)	127	158
Events/travel (Dunedin City Council)	-	11
Subvention payment (Aurora Energy Limited)	-	62
	127	231
Loss offset to Group	-	146

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

	2013 $'000	2012 $'000
Rates, events, leases (Dunedin City Council)	69	68
Director's Fees (Dunedin City Holdings Limited)	11	5
Engineering services (Delta Utility Services Limited)	1	-
Interest paid (Dunedin City Treasury Limited)	62	57
Subvention payment (Dunedin Venues Management Limited)	14	-
	157	130

Major Transactions with the Otago Excursion Train Trust

Sales of services to the Otago Excursion Train Trust:

	2013 $'000	2012 $'000
Charters / Sales	3	9
Equipment reimbursed by Shareholders Advance	-	8
	3	17

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

	2013 $'000	2012 $'000
Ticket Sales /Directors fees	38	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, carried out contract labour on the daily train and in our maintenance division amounting to $16,045 (2012: $18,676).

Mr A W Baylis, Director of Dunedin City Holdings Limited, is also a Director of Blackhead Quarries Limited with whom purchases of $322 (2012: $748) were undertaken, and Palmers Mechanical Limited with whom purchases of $1,619 (2012: $501) were undertaken.

Mr G W Crombie, Director of Dunedin City Holdings Limited from 2012, is also a Director of Action Engineering Limited with whom purchases of $47,442 were undertaken.

Mrs K E Grant, Director of Dunedin City Holdings Limited from 2012, is also a Director of Otago Polytechnic with whom product sales amounting to $777 were made.

Mr J D Shale, Director Dunedin City Holdings Limited, is also a Director of Oceana Gold Corporation with whom purchases of $4,967 (2012: $20,755) 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:

	2013	**2012**
	$'000	**$'000**
Directors' Fees	73	57
Chief Executive (total remuneration)	130	113

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 2013:

General

6.1 **Customer Service**
To achieve customer survey responses with overall satisfaction levels greater than 90%.

Achieved. Our social media based survey has returned positive responses with satisfaction levels at 90%.

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 5.3%.

Economic

6.3 **Financial Performance**
To achieve an accounting result which shows profitability and a positive cash flow for the year ending 30 June 2013.

Achieved. The company returned a profit and a positive operating cash flow for the year.

6.4 **Growth**
To match or exceed national and local tourist visitor growth year on year using statistics from www.tourismresearch.govt.nz.

Achieved. Total train passengers increased by 0.7% while international holiday/vacation tourist numbers to New Zealand fell by 0.5% (www.stats.govt.nz).

Social

6.5 **Good Employer**
To ensure there are no breaches of the company's EEO policy.

Achieved.

6.6 **Operating Environment**
To ensure that the company passes its Safety Audits and continues to have a Rail Service Licence as at 30 June 2013.
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 2013.

Achieved, as the company passed Safety Audits and was reissued with a Rail Service Licence. There was one lost time work-related accident with lost time hours at 0.03% of total hours worked.

6.7 **Volunteers**

To maintain the level of support provided by volunteers in the year to 30 June 2013 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.

Achieved. There was an increased contribution by volunteers to the operations of TGRL as a result of the same number of cruise ships but generally larger ships visiting. Otago Excursion Train Trust kept records for the second year and recorded 15 560 manhours of voluntary work versus 13 980 in the previous year.

Environmental

6.8 **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 2013.

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.

6.9 **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 public or staff adverse comment.

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.

6.10 **Emission Monitoring**

To carry out a survey of carbon-based fuel usage and electricity usage in the year to 30 June 2013. 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.
Achieved for fuel usage with passengers carried per litre of fuel used increasing from 0.279 to 0.283.

DIRECTORY
As at 30 June 2013

DIRECTORS
J E Farry (Chairman)
G M T Williams (Deputy Chairman)
J M Chapman
B R N Dodds
F J McCall
Hon. Stan Rodger

CHIEF EXECUTIVE
M J Bond

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Anderson Lloyd Lawyers

TAXATION ADVISERS
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AUDITOR
Audit New Zealand on behalf of
The Auditor-General