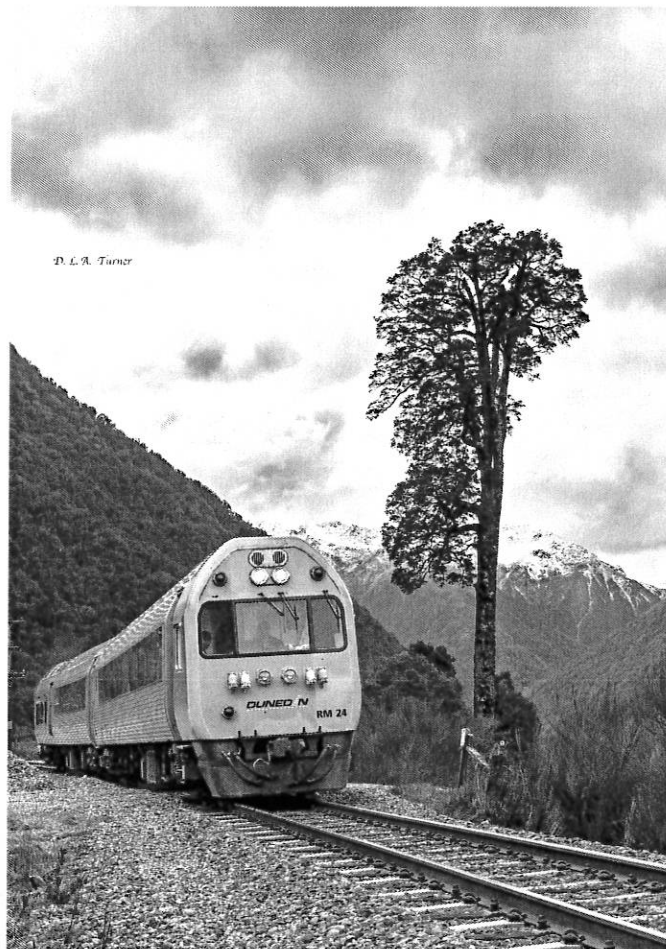

TAIERI GORGE RAILWAY LIMITED



**Annual Report
For the Year Ended
30 June 2016**

TAIERI GORGE RAILWAY LIMITED

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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

- Total passenger numbers travelling on trains increased by 7.2% from 79 271 to 84 947
- Revenue increase of 7.6% (\$478K)
- Complete closure of all outstanding conditions and recommendations at the November Safety Audit.
- Profit well in excess of budget expectations in spite of large increase in track resleeper work
- Debt at end of year \$212K below expectations.
- Revenue for the daily train increasing by 15% and margin increasing by 22%
- Revenue for the Dunedin Silver Fern railcar increasing by 218% and margin increasing by 347%.
- Sleeper replacement increase from about 400 to 2449
- Commencement of rail tours using the Dunedin Silver Fern with a West Coast and an East Coast trip both sold out

TAIERI GORGE RAILWAY LIMITED

DIRECTORS' REPORT **For the Year Ended 30 June 2016**

The directors are pleased to present the Annual Report together with the financial statements of the company for the year ended 30 June 2016.

The company experienced another satisfactory trading year following the recovery of the general tourist market. A pretax profit of \$191K has been recorded in spite of significant increased maintenance costs relating to our new track maintenance strategy and from the need to address deferred maintenance on our rolling stock.

Company strategies and performance measures were updated during the year and a strategic planning session was held in April to facilitate future planning. Good progress has been made during the year with most of the performance measures being met or bettered. These company efficiencies have achieved market growth and improved margins.

Safety management has been the prime focus of the company with the Board Safety Subcommittee meeting three monthly and the company Health and Safety committee meeting monthly. With the introduction of new safety legislation and regulations, the company has worked closely with NZTA and WorkSafe to ensure that we are compliant and continually working to improve our procedures, operations and safety management. We have had a complete closure of all outstanding conditions and recommendations from the December 2014 Safety Audit and are making good progress on closing those from the 2015 audit.

Our strategy to upgrade the track commenced with a target of 2000 sleepers to be replaced during the year. In spite of the necessary planning and equipment acquisition we have managed to replace 2449 sleepers this year. Negotiations with KiwiRail have led to our dismantling one of their redundant AO class carriages with a view to restoration, strength upgrading and possible purchase of several of these carriages. Purchase and introduction of these carriages would allow for lower maintenance and a structurally stronger fleet. Negotiations continue with KiwiRail and NZTA for the possible reintroduction of these carriages to the working fleet.

The general tourist market is now improving in this region with the recovery in numbers to the east coast of the South Island. The cruise market for the year ahead is somewhat stronger therefore the Board remains cautiously optimistic of good results ahead. The coming summer season is likely to show continued recovery in tourist numbers related to increased accommodation coming on stream in Christchurch. Business initiatives continue to be introduced to increase passenger numbers on the daily train and to maximise revenue on cruise ship days.

The company has a strong trading base and is highly regarded in the market-place. The ongoing strategy is to target growth opportunities while managing our maintenance work load in such a way to ensure that safety is not compromised. As a result of maintenance requirements, the company is not likely to generate substantial profits in the medium term. Our true value in the medium term is best measured by the contribution we make 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 a group of up to one hundred volunteers who provide a wonderful service free of charge. They 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 and facilitating modernisation of the company and its operations.

G.R. Thomas
Chairman

TAIERI GORGE RAILWAY LIMITED

DIRECTORS' REPORT For the Year Ended 30 June 2016

Results for the Year Ended 30 June 2016

	Year Ended 30 June 2016	Year Ended 30 June 2015
	\$'000	\$'000
Operating Profit/(Loss) continuing operations pretax	191	242
Income Tax Expense/(Credit)	54	69
Profit/(Loss) from continuing operations	137	173

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 57.0% (54.3% 2015) and a net worth of \$2,023,127 at 30 June 2016.

Dividends

The directors have recommended that no dividend be paid for the year ended 30 June 2016.

Reserves

There have been no transfers made to reserves during the year to 30 June 2016.

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 and retail sales at Dunedin Railway Station.

Safety Management

The company views safety management as one of the key management requirements of the company. The Board Safety Subcommittee, which includes four board members, meets formally along with key management staff three monthly. The staff Health and Safety committee meets monthly. Key safety policy documents have been formalised and developed in line with regulatory requirements and with best modern practice. There are 17 safety KPIs which are measured and reported upon monthly. Safety reporting is at the top of meeting agendas and as stand-alone papers at the start of monthly Board reports. The annual safety audit carried out in November 2015 resulted in the company closing all outstanding conditions and recommendations from the 2014 safety audit. This is as a result of a more proactive and professional approach to safety being applied within the company.

The Taieri Gorge Limited

The Taieri Gorge Limited operates in the international and domestic tourism market and has experienced an improved year. International visitor numbers to New Zealand rose by 10.6% and, in spite of the continuing negative effect of the Christchurch earthquakes and the lack of expected dispersal of visitors to

TAIERI GORGE RAILWAY LIMITED

DIRECTORS' REPORT

For the Year Ended 30 June 2016

the regions, our fare paying customers rose by 14.8%. The daily tourist train carried 53, 837 passengers versus 47,584 passengers in the previous year. Revenue in this division rose by 15.5% (\$468K) to \$3,496,479 and the margin achieved increased by 23% from \$1,511,175 to \$1,842,513. 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 and regional visitation improve.

Excursions and Charters/Dunedin Silver Fern

The Excursions and Charters division experienced a difficult year as a result of a reduced cruise ship season and following shore excursion price increases by the cruise lines. The number of cruise ship passengers carried decreased by 20% to 12,969. Revenue in this division decreased by 24% to \$2,026,971. The margin in this division decreased by 25% from \$1,787,230 to \$1,336,144.

Business from the leased 94 seat Silver Fern railcar has been spectacular in this fourth year of operations with 11,850 passengers carried versus 6,300 in the previous year. Revenue in this division increased by 218% to \$846K and the margin improved by 347% to \$403K. This increase was as a result of the introduction of rail touring in the South Island and from increased cruise day passenger loadings as cruise customers avoided high shore excursion charges and took more economical trips. The lease of this vehicle continues until September 2019.

Business Development/Marketing

Strategic improvements to the company continue to be developed following a Strategic Update meeting in April. Success to date includes business growth, margin improvements, modernisation and better systems and improved product being developed throughout the year. Growth in online reservations continues from ongoing upgrading of both the live reservation system and our company website. There has also been social media booking success placing the company into the forefront of the digital age and in line with the top tourist operations within New Zealand. The new reservation system has resulted in a considerable level of presales of product therefore has resulted in improvements to the company cash flow during the year. The company continues to be a leader in the Asian market sector with a dedicated staff member concentrating on the rapidly growing Chinese market. Chinese customer numbers on the daily train increased by 104% over the year to become 7.8% of our total daily train customers and this compares with a figure of just 2.1% in 2014.

Maintenance

Our maintenance workload is significant as the age of locomotives, carriage fleet and track infrastructure extends. The company continues to liaise with NZTA and KiwiRail regarding the future and strength of wooden and newer carriages. Following the decision by KiwiRail to decommission their AO class carriages, these were relocated to Middlemarch on our line for storage. Subsequent negotiations with KiwiRail have led to our assessment of one of these carriages for strengthening work toward a potential purchase of these carriages. The condition of our track has improved during the year in line with our track improvement strategy introduced last year. There has been a substantial increase in sleeper replacement with 2,449 sleepers placed during the year which meets our new annual target for this work. A new Risk/Asset Management system for the company has been introduced and is showing good results. Improved management systems continue to be introduced into the workshop and track areas and increased efficiency of work is beginning to show. The need to maintain track and locomotive 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.

Workloads in this division are high and management assistance has been introduced to better plan and prioritise the workload.

TAIERI GORGE RAILWAY LIMITED

Strategic Initiatives

The Strategic Plan introduced in July 2014 was reviewed in April this year in order to plan for company growth and improvements over the years ahead. Key KPI measures for the company have been updated in order to manage the strategic plan. These measures are reported upon monthly and have been the driver for increased business levels and better returns per customer.

Outlook

Business levels for the daily train have been constrained since the Christchurch earthquakes but are now showing signs of improvement. Ministry of Business, Innovation and Employment forecasts show good tourism growth in the years ahead and even better growth in the important holidaymaker market. This is good news for the company especially as improvement is also expected as tourists return to the South Island, as Christchurch hotels reopen and as regional dispersal of tourists eventuates. The forward cruise ship market is stronger. As a result, we look forward with some confidence to market growth and to satisfactory 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 2016 are attached to this report.

Directors' Interests in Contracts

No material contracts involving directors' interests were entered into during the year ended 30 June 2016 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 2.5 years Director 2.5 years	Chairman Appointed by DCC	\$22,950
G M T Williams	Deputy Chairman 14 years Director 18 years	Deputy Chairman Appointed jointly by DCC/OETT	\$15,300
F J McCall	Director 18 years	Non-Executive Director Appointed by DCC	\$15,300
Hon. Stan Rodger	Director 6 years	Non-Executive Director Appointed by DCC/OETT	\$15,300
G M Smart	Director 1.6 years	Non-Executive Director Appointed by OETT	\$15,300
D W Wood	Director 3 years	Non-Executive Director Appointed by OETT	\$15,300
			<u>\$99,450</u>

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

TAIERI GORGE RAILWAY LIMITED

Employees Remuneration

There is one employee whose remuneration and benefits exceeded \$100,000 for the year ended 30 June 2016. This is disclosed at Note 23. Remuneration includes all non-cash benefits and redundancy payments at total cost to the company, where applicable.

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). Item 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 one monetary donation during the year ended 30 June 2016. The donation of \$2 000 to The Otago Central Rail Trail Charitable Trust was part of our company policy to work 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 2016 is \$19,522.

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: 14 September 2016

TAIERI GORGE RAILWAY LIMITED

Statement of Comprehensive Income

For the Year Ended 30 June 2015

	Notes	Year Ended 30 June 2016 \$'000	Year Ended 30 June 2015 \$'000
Continuing Operations			
Revenue	4	6,578	6,086
Total revenue		6,578	6,086
Less expenses			
Audit fees - audit of annual report		20	19
Contractors		1,006	1,006
Depreciation		309	299
Directors Fees		99	96
Employee expenses		2,720	2,501
Financial expenses		45	57
Raw materials and consumables used		1,110	932
Other expenses		1,078	934
Total expenses		6,387	5,844
Profit(Loss) before tax		191	242
Income tax expense(credit)	7	54	69
Net Profit(Loss) from continuing operations		137	173
Other comprehensive income		-	-
Total comprehensive income		137	173
Earnings per share from continuing operations (cents per share)		8.70	11.04

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

TAIERI GORGE RAILWAY LIMITED

Statement of Changes in Equity

For the Year Ended 30 June 2016

	Note	Year Ended 30 June 2016 \$'000	Year Ended 30 June 2015 \$'000
Equity at beginning of year		1,886	1,713
Comprehensive Income			
Profit/(Loss) from continuing operations		137	173
Total Comprehensive Income		137	173
Less distribution to owners	5	-	-
Equity at the end of the year		2,023	1,886

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

TAIERI GORGE RAILWAY LIMITED

Statement of Financial Position

As at 30 June 2016

	Note	30 June 2016 \$'000	30 June 2015 \$'000
Equity			
Share capital	8	1,572	1,572
Retained earnings	9	451	314
Total Equity		2,023	1,886
Current Liabilities			
Cash and cash equivalents	17	-	-
Provision for employee entitlements	11	320	317
Trade and other payables	10	497	528
Other current liabilities (provisions)	11	144	152
Shareholders advances	12	325	325
Current portion-term borrowings	21	-	-
Total current liabilities		1,286	1,322
Non-Current Liabilities			
Deferred tax liability (asset)	13	58	48
Term borrowings	21	285	217
Total non-current liabilities		343	265
Total Liabilities		1,629	1,587
TOTAL EQUITY AND LIABILITIES		3,652	3,473

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

TAIERI GORGE RAILWAY LIMITED

Statement of Financial Position (continued)

As at 30 June 2016

	Note	30 June 2016 \$'000	30 June 2015 \$'000
Current Assets			
Cash and cash equivalents	17	112	7
Trade and other receivables	18	45	43
Inventories	19	176	219
Tax refund receivable		28	2
GST refund receivable		36	50
Total current assets		397	321
Non-Current Assets			
Property, plant and equipment	20	3,255	3,152
Total non-current assets		3,255	3,152
TOTAL ASSETS		3,652	3,473

For and on behalf of the Board of Directors



G R Thomas
Chairman
Date: 14 September 2016



~~G.M.T. Williams~~
~~Deputy Chairman~~

Date: 14 September 2016

F. J. McCall
Director

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

TAIERI GORGE RAILWAY LIMITED

Statements of Cash Flows

For the Year Ended 30 June 2016

	Note	Year Ended 30 June 2016 \$'000	Year Ended 30 June 2015 \$'000
Cash Flows from Operating Activities			
<i>Cash was provided from</i>			
Receipts from customers		6,571	6,114
Interest received		-	-
Subvention receipts		-	-
		6,571	6,114
<i>Cash was disbursed to</i>			
Payments to suppliers and employees		6,021	5,398
Interest paid		46	57
Income tax paid		70	46
Net GST paid		(14)	36
Subvention to DVL/DVML		-	-
		6,123	5,537
Net Cash Inflows/(Outflows) from operating activities		448	577
Cash Flows from Investing Activities			
<i>Cash was provided from</i>			
Sale of property, plant and equipment		-	-
		-	-
<i>Cash was disbursed to</i>			
Purchase of property, plant and equipment		411	160
		411	160
Net Inflows/(Outflows) from Investing Activities		(474)	(160)
Cash Flows from Financing Activities			
<i>Cash was provided from</i>			
Proceeds from borrowings		1,668	932
		1,668	932
<i>Cash was disbursed to</i>			
Repayments of borrowings		1,600	1,470
		1,600	1,470
Net Cash Inflows/(Outflows) from Financing Activities		68	(538)
Net Increase/(decrease) in Cash, Cash Equivalents and Bank Overdraft		105	(121)
Cash and cash equivalents at the beginning of the year		7	128
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	17	112	7
Composition of Cash			
Cash and cash equivalents		112	7
Bank overdraft		-	-
CASH AND CASH EQUIVALENTS AT END OF YEAR	17	112	7

The 2015 financial year was the first year of transition from Differential Reporting rules to Tier 2 NZ IFRS reporting with Reduced Disclosure Requirements, therefore the first year with a Statement of Cash Flows.

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

TAIERI GORGE RAILWAY LIMITED

Notes to the Financial Statements

For the Year Ended 30 June 2016

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 2016. The financial statements were authorised for issue by the directors on 14 September 2016.

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

Taieri Gorge Railway Limited is classed as a For-profit entity for financial reporting.

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 and all values are rounded to the nearest thousand dollars (\$000).

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The financial statements of Taieri Gorge Railway Limited have been prepared in accordance with the requirement to comply with the generally accepted accounting practice in New Zealand (NZ GAAP).

These financial statements have been prepared in accordance with Tier 2 For-profit accounting standards (New Zealand equivalents to International Reporting Standards with reduced disclosure requirements).

The company qualifies for Tier 2 as the company has expenditure less than \$30m and is not publicly accountable.

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 have been no changes to accounting policies in the 2016 year. The 2015 financial statements were the first financial statements prepared in accordance with the new For-profit entity Tier 2 accounting standards.

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.

TAIERI GORGE RAILWAY LIMITED

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.

TAIERI GORGE RAILWAY LIMITED

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.

TAIERI GORGE RAILWAY LIMITED

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.

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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.

TAIERI GORGE RAILWAY LIMITED

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.

TAIERI GORGE RAILWAY LIMITED

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.

	2016 \$'000	2015 \$'000
4. REVENUE		
Taieri Gorge Limited tourist train	3,497	3,028
Excursions/Charters	2,027	2,659
Dunedin Silver Fern	846	266
Other	165	130
Agency Commission	43	3
	<u>6,578</u>	<u>6,086</u>

Gross Revenue of the company inclusive of Travel Agency revenue was \$6,784,034 (2015: \$6,306,248)

5. DIVIDENDS

No dividends were paid by the company	-	-
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6. EARNINGS PER SHARE

Earnings per share from continuing operations (cents per share)	8.70	11.04
Number of shares	1,571,900	1,571,900

7. INCOME TAX

	2016 \$'000	2015 \$'000
Operating surplus/(loss) before tax - continuing operations	191	242
Operating surplus/(loss) before income tax	<u>191</u>	<u>242</u>
Tax thereon at 28%	54	68
<i>Plus / (Less) the Tax Effect of Differences</i>		
Revenue not liable for taxation	-	-
Expenditure not deductible for taxation	-	1
Under/(over) provision in prior years	-	-
Tax effect of differences	<u>-</u>	<u>1</u>
Tax expense	<u>54</u>	<u>69</u>

TAIERI GORGE RAILWAY LIMITED

	2016 \$'000	2015 \$'000
Effective tax rate	28%	29%
<i>Represented by</i>		
<u>Current tax provision</u>		
Prior period adjustment	(5)	-
Current tax movement	49	46
<u>Current deferred tax provision</u>		
Deferred tax movement	5	23
(Under) /over tax provision in prior years	5	-
Income tax	<u>54</u>	<u>69</u>

Imputation Credit Account

Balance at the beginning of the year	253	222
Taxation payment / (refund)	70	31
Prior period adjustment	-	-
Balance at the end of the year	<u>323</u>	<u>253</u>
Expected future movement	(28)	(2)
	<u>295</u>	<u>251</u>

8. EQUITY – Share Capital

Issued Capital

1,571,900 ordinary shares	1,572	1,572
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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	314	141
Net surplus for the year	137	173
Dividend distributions	-	-
Balance at the end of the year	<u>451</u>	<u>314</u>

10. TRADE AND OTHER PAYABLES

Trade payables	496	517
Due to related parties	1	11
	<u>497</u>	<u>528</u>

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

TAIERI GORGE RAILWAY LIMITED

	2016 \$'000	2015 \$'000
11. OTHER LIABILITIES		
Accruals/Debtor prepayments	144	152
Employee entitlements	320	317
	<u>464</u>	<u>469</u>

12. SHAREHOLDERS ADVANCES

Otago Excursion Train Trust	325	325
Total Shareholders Advances	<u>325</u>	<u>325</u>

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

13. DEFERRED TAX	2016 \$'000	2016 \$'000	2016 \$'000	2016 \$'000	2016 \$'000	2016 \$'000
	<i>Opening Balance Sheet</i>	<i>Charged to Equity</i>	<i>Charged to Income</i>	<i>Closing Balance Sheet Assets</i>	<i>Liabilities</i>	<i>Net</i>
Property, plant and equipment	130	-	5	-	135	135
Employee entitlements	(78)	-	5	(73)	-	(73)
Provisions and adjustments	(4)	-	-	(4)	-	(4)
Tax losses	0	-	-	-	-	-
Balance at the end of the year	<u>48</u>	<u>0</u>	<u>10</u>	<u>(77)</u>	<u>135</u>	<u>58</u>
	2015 \$'000	2015 \$'000	2015 \$'000	2015 \$'000	2015 \$'000	2015 \$'000
	<i>Opening Balance Sheet</i>	<i>Charged to Equity</i>	<i>Charged to Income</i>	<i>Closing Balance Sheet Assets</i>	<i>Liabilities</i>	<i>Net</i>
Property, plant and equipment	129	-	1	-	130	130
Employee entitlements	(78)	-	-	(78)	-	(78)
Provisions and adjustments	(4)	-	-	(4)	-	(4)
Tax losses	(22)	-	22	-	-	-
Balance at the end of the year	<u>25</u>	<u>-</u>	<u>23</u>	<u>(82)</u>	<u>130</u>	<u>48</u>

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

TAIERI GORGE RAILWAY LIMITED

	2016 \$'000	2015 \$'000
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14. CONTINGENT LIABILITIES AND ASSETS

The company has no contingent liabilities and assets (2015: nil).

15. CAPITAL EXPENDITURE COMMITMENTS

Capital expenditure committed at balance date but not provided for in the financial statements

	-	-
	-	-

16. LEASE COMMITMENTS

Minimum Operating Lease Payments

Payable within one year	88	87
Payable between one to five years	243	237
Payable later than five years	-	-
	331	314
	331	314

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 23 December 2008, renewed 14 December 2014 for 6 years at \$44,300 p.a. with 1 further right to a renewed term of 6 years with a final expiry date of 13 December 2026. A one year lease from KiwiRail of a railcar with a monthly/kilometre fee was commenced during the 2012/13 year and was extended to a 5 year lease commencing 1 September 2014.

Actual operating lease payments in the year amounted to \$318,000 (2015: \$293,000)

17. CASH AND CASH EQUIVALENTS

Cash and Bank	112	7
	112	7

Cash and short-term deposits in the current year comprise cash held by the company and short-term deposits with Bank of New Zealand. Short-term deposits or short-term borrowings with Dunedin City Treasury Ltd are 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.

TAIERI GORGE RAILWAY LIMITED

	2016 \$'000	2015 \$'000
18. TRADE AND OTHER RECEIVABLES		
Trade receivables	44	42
	<u>44</u>	<u>42</u>
Due from related Parties	1	1
	<u>45</u>	<u>43</u>
	<u><u>45</u></u>	<u><u>43</u></u>

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

19. INVENTORIES

Raw materials and stores	162	198
Consumables for resale	14	21
	<u>176</u>	<u>219</u>
Total Inventories	<u><u>176</u></u>	<u><u>219</u></u>

TAIERI GORGE RAILWAY LIMITED

20. PROPERTY, PLANT AND EQUIPMENT	2016	2016	2016	2016	2016	2016	2016
	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	4,364	708	379	248	397	6,121
Increase through acquisition	-	-	-	-	-	-	-
Purchases/revaluation	-	274	26	15	29	104	448
Sales/prior period adjustment	-	-	-	-	-	-	-
Transfer to assets held for sale	-	-	-	-	-	-	-
Balance at end of period	25	4,638	734	394	277	501	6,569
Accumulated depreciation							
Balance at beginning of period	22	2,102	501	250	158	184	3,217
Depreciation	-	222	39	32	14	2	309
Impairment	-	-	-	-	-	-	-
Sales/prior period adjustment	-	-	-	-	-	-	-
Transfer to assets held for sale	-	-	-	-	-	-	-
	22	2,324	540	282	172	186	3,526
Balance at end of period	3	2,314	194	112	105	315	3,043
Comprising - Cost	3	2,314	194	112	105	315	3,043
Valuation	-	-	-	-	-	-	-
	2016	2016	2016				
	Sub -Total	Work in Prog.	Total				
	\$'000	\$'000	\$'000				
Cost							
Balance at beginning of period	6,121	248	6,369				
Increase through acquisition	-	-	-				
Net Purchases/ revaluation	448	(36)	412				
Sales/prior period adjustment	-	-	-				
Transfer to assets held for sale	-	-	-				
Balance at end of period	6,569	212	6,781				
Accumulated depreciation							
Balance at beginning of period	3,217	-	3,217				
Depreciation	309	-	309				
Impairment	-	-	-				
Sales/prior period adjustment	-	-	-				
Transfer to assets held for sale	-	-	-				
	3,526	-	3,526				
Balance at end of period	3,043	212	3,255				
Comprising - Cost	3,043	212	3,255				
Valuation	-	-	-				

TAIERI GORGE RAILWAY LIMITED

20. PROPERTY, PLANT AND EQUIPMENT	2015	2015	2015	2015	2015	2015	2015
	Buildings \$'000	Rolling Stock \$'000	Plant & Equipment \$'000	Office Equipment \$'000	Vehicles \$'000	Track \$'000	Sub -Total \$'000
Cost or Valuation							
Balance at beginning of period	25	4,400	705	364	248	397	6,139
Increase through acquisition	-	-	-	-	-	-	-
Purchases/revaluation	-	110	19	15	-	-	144
Sales/prior period adjustment	-	(146)	(16)	-	-	-	(162)
Transfer to assets held for sale	-	-	-	-	-	-	-
Balance at end of period	25	4,364	708	379	248	397	6,121
Accumulated depreciation							
Balance at beginning of period	22	2,035	477	214	146	184	3,078
Depreciation	-	213	41	36	12	-	302
Impairment	-	-	-	-	-	-	-
Sales/prior period adjustment	-	(146)	(17)	-	-	-	(163)
Transfer to assets held for sale	-	-	-	-	-	-	-
	22	2,102	501	250	158	184	3,217
Balance at end of period	3	2,262	207	129	90	213	2,904
Comprising - Cost	3	2,262	207	129	90	213	2,904
Valuation	-	-	-	-	-	-	-
	2015 Sub -Total \$'000	2015 Work in Prog. \$'000	2015 Total \$'000				
Cost							
Balance at beginning of period	6,139	63	6,202				
Increase through acquisition	-	-	-				
Purchases/ revaluation	144	185	329				
Sales/prior period adjustment	(162)	-	(162)				
Transfer to assets held for sale	-	-	-				
Balance at end of period	6,121	248	6,369				
Accumulated depreciation							
Balance at beginning of period	3,078	-	3,078				
Depreciation	302	-	302				
Impairment	-	-	-				
Sales/prior period adjustment	(163)	-	(163)				
Transfer to assets held for sale	-	-	-				
	3,217	-	3,217				
Balance at end of period	2,904	248	3,152				
Comprising - Cost	2,904	248	3,152				
Valuation	-	-	-				

TAIERI GORGE RAILWAY LIMITED

	2016 \$'000	2015 \$'000
21. TERM BORROWINGS		
Dunedin City Treasury Limited	285	217
	<u>285</u>	<u>217</u>
Current	<u>0</u>	<u>0</u>
Non current	285	217

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.

TAIERI GORGE RAILWAY LIMITED

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.

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:

	2016 \$'000	2015 \$'000
Ticket sales (Visitor Centre)	159	124
	<u>159</u>	<u>124</u>

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

Rates, events, leases (Dunedin City Council)	76	73
Director's Fees (Dunedin City Holdings Limited)	-	-
Engineering services (Delta Utility Services Limited)	-	-
Interest paid (Dunedin City Treasury Limited)	45	57
	<u>121</u>	<u>130</u>

Major Transactions with the Otago Excursion Train Trust

Sales of services to the Otago Excursion Train Trust:

Charters / Sales	-	-
Equipment reimbursed by Shareholders Advance	-	-
	<u>-</u>	<u>-</u>

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

Ticket Sales /Directors fees	-	-
	<u>-</u>	<u>-</u>

TAIERI GORGE RAILWAY LIMITED

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 G W Crombie, Director of Dunedin City Holdings Limited, is also a Director of Action Engineering Limited with whom purchases of \$8,796 (2015: \$15,497) 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 \$2,207 (2015:\$325) were made.

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:

	2016	2015
	\$'000	\$'000
Directors' Fees	99	96
Chief Executive (total remuneration)	138	134

TAIERI GORGE RAILWAY LIMITED

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 2016:

General

6.1 **Customer Service**

To develop a customer survey and to monitor Trip Advisor to ensure customer satisfaction levels of 85% or better.

Achieved for customer satisfaction. With Trip Advisor rating the product as 4.5 star we are achieving overall satisfaction levels of at least 90%. Work is progressing on developing a new customer survey.

6.2 **Passengers and Trips**

To carry at least 70,000 passengers across no fewer than 600 trips per annum.

Achieved. Total passenger numbers on trains were 84 947 over the year carried on 743 train trips.

Safety

6.3 **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 2016.

Achieved. The company undertook a Safety Audit in November 2015 and retains a Rail Service Licence as at 30 June 2016.

6.4 **Management**

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

Achieved. Internal Audit System in place and continually monitored with critical items such as inspections and certification completed within 3 months of scheduled dates.

6.5 **Operating Environment**

To have a year on year reduction in work related accidents until the target of no work related accidents is achieved.

Not achieved. There were 51 work-related accident versus 32 in the previous year. There was only 1 work related accident with lost time hours versus 1 in the previous year. The increase in the current year is related to an improved reporting system.

Economic

6.6 **Financial Performance**

To achieve an accounting result which shows profitability and a positive cash flow for the year ending 30 June 2016.

Achieved with a profit being achieved by the company and a positive cash flow for the year resulting in nett debt reducing from \$210K to \$173K over the year.

TAIERI GORGE RAILWAY LIMITED

6.7 **Growth**

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

Achieved for the daily train and Dunedin Silver Fern with the gross margins increasing by 22% and 347%. Not achieved for Excursions. Achieved for the Travel Agency with the gross margin increasing by 303%.

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 2016 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 fully staffed with volunteers. Otago Excursion Train Trust keep records and recorded 7 198 man-hours of voluntary work versus 9 415 in the previous year with 64 cruise ship visits versus 65 in the previous year.

6.10 **Corporate Citizen**

To have carried out a waste minimisation, weed and pest control programme, and to continually review company operations to identify any potential environmental issues by 30 June 2016.

Achieved. Waste recycling, weed and pest operations continued during the year. The company Health and Safety Committee discusses and reports on all matters of safety and environmental concerns on a monthly basis.

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 history of protecting 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 2016. To record passenger numbers carried per litre of fuel used with a view to improving this figure over time.

Achieved with a listing of fuel and electricity usage maintained over the year. Not achieved for fuel usage with passengers carried per litre of fuel used reducing from 0.275 to 0.269 as a result of safety requirements to power each train with at least two locomotives.

TAIERI GORGE RAILWAY LIMITED

DIRECTORY

As at 30 June 2016

DIRECTORS

G R Thomas (Chairperson)
G M T Williams (Deputy Chairperson)
F J McCall
Hon. Stan Rodger
G M Smart
D W Wood

CHIEF EXECUTIVE

M J Bond

REGISTERED OFFICE

50 The Octagon
Dunedin
New Zealand

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Email: railway@dunedinrailways.co.nz
Website: www.dunedinrailways.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 performance information for the year ended 30 June 2016

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

Opinion

We have audited:

- the financial statements of the company on pages 8 to 28, that comprise the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the company on pages 29 to 30.

In our opinion:

- the financial statements of the company:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2016; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with International Financial Reporting Standards Reduced Disclosure Requirements.
- the performance information of the company presents fairly, in all material respects, the company's actual performance compared against the performance targets and other measures by which performance was judged in relation to the company's objectives, for the year ended 30 June 2016.

Our audit was completed on 14 September 2016. 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 the performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and the performance information. 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 the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the performance information, 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 the performance information 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 appropriateness of the reported performance information within the company's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and the performance information; and
- the overall presentation of the financial statements and the performance information.

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

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

Responsibilities of the Board of Directors

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

The Board of Directors' responsibilities arise from the Local Government Act 2002.

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

Responsibilities of the Auditor

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

Independence

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

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

A handwritten signature in black ink, appearing to read 'Scott Tobin', with a horizontal line extending from the end of the signature.

Scott Tobin
Audit New Zealand
On behalf of the Auditor-General
Dunedin, New Zealand