
TAIERI GORGE RAILWAY LIMITED



Annual Report For the Year Ended 30 June 2017

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 2.5% from 84 947 to 87 094
- Revenue increase of 5.5% (\$361K) to \$6.94m
- Closure of all outstanding conditions and recommendations at the November Safety Audit.
- Profit in excess of expectations in spite of 8 cruise visit cancellations and market restraint from Kaikoura earthquake
- Revenue for the daily train increasing by 4.7%
- Revenue for Excursions and Charters increasing by 3.4% and margin increasing by 5.1%
- Revenue for the Dunedin Silver Fern railcar increasing by 16%
- Sleeper replacement increase from 2449 to 2796
- Rail tour growth, using the Dunedin Silver Fern, with a successful new tour out of Christchurch
- Five new company policies drafted and signed off with eleven new policies now in place

TAIERI GORGE RAILWAY LIMITED

DIRECTORS' REPORT **For the Year Ended 30 June 2017**

The directors are pleased to present the Annual Report together with the financial statements of the company for the year ended 30 June 2017.

The company experienced another satisfactory trading year part of which was a result of a small increase in growth in the general tourist market. A pretax profit of \$232K has been recorded in spite of increased maintenance costs in our track maintenance and rolling stock divisions.

Good progress has been made during the year with market growth and improved margins being achieved in all three train divisions. Growth was hindered by the effects of the Kaikoura earthquake limiting tourist activity on the east coast of the South Island and from the cancellation of eight cruise ship visits because of poor weather.

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. The company has worked closely with NZTA and WorkSafe to ensure that we are compliant and are continually working to safeguard our staff and passengers by improving our procedures, operations and safety management. We have had a complete closure of all outstanding conditions and recommendations from the December 2015 Safety Audit and are making good and timely progress on closing those from the 2016 audit.

Our on-going strategy to upgrade the track, with a target of 2000 sleepers to be replaced annually, has continued successfully with 2796 sleepers replaced during the year. Negotiations with KiwiRail led to the company assessing 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 on-going maintenance, improved safety and a structurally stronger fleet. Negotiations continue with KiwiRail and NZTA for the purchase and possible reintroduction of these carriages to our working fleet.

The general tourist market has improved strongly in New Zealand but has lagged in this region. Re-opening of the Kaikoura road this coming December should result in this company sharing the tourism gains seen throughout New Zealand. The cruise market for the year ahead is somewhat stronger and should result in passenger gains for the company. As a result, the Board remains cautiously optimistic of improved gross revenues. 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 we note that his long commitment to the company is to finish in October. Murray and his committed staff 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 2017

Results for the Year Ended 30 June 2017

	Year Ended 30 June 2017	Year Ended 30 June 2016
	\$'000	\$'000
Operating Profit/(Loss) continuing operations pretax	232	191
Income Tax Expense/(Credit)	60	54
Profit/(Loss) from continuing operations	172	137

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 57.5% (57.0% 2016) and a net worth of \$2,195,425 at 30 June 2017.

Dividends

The directors have recommended that no dividend be paid for the year ended 30 June 2017.

Reserves

There have been no transfers made to reserves during the year to 30 June 2017.

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 are formalised and developed in line with regulatory requirements and with best modern practice. Safety KPIs are measured and reported upon monthly. Safety reporting is at the top of meeting agendas and at the start of monthly Board reports. The annual safety audit carried out in November 2016 resulted in the company closing all outstanding conditions and recommendations from the 2015 safety audit.

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 10.2% but, the effects of the Kaikoura earthquake and the ongoing effects of the Christchurch earthquakes limited growth in our region,

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DIRECTORS' REPORT

For the Year Ended 30 June 2017

resulting in our fare paying customer numbers rising by only 2.6%. The daily tourist train carried 55,265 passengers versus 53,837 passengers in the previous year. Revenue in this division rose by 4.7% (\$164K) to \$3,660,544 and the margin achieved increased by 1.3% to \$1,866,206. 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 the New Zealand market increase reaches the regions.

Excursions and Charters/Dunedin Silver Fern

The Excursions and Charters division experienced an improved year as a result of a busier cruise ship season in spite of the cancellation of 8 cruise visits as a result of adverse weather. The number of cruise ship passengers carried increased by 4.2% to 13,512. Revenue in this division increased by 3.4% to \$2,095,899. The margin in this division increased by 5.1% to \$1,403,642.

Business from the leased 94 seat Dunedin Silver Fern railcar has again been strong in this fifth year of operations with 12,635 passengers carried versus 11,850 in the previous year. Revenue in this division increased by 15.5% to \$977,687 and the margin improved by 6.4% to \$428,615. This increase was as a result of growth 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. This has resulted in business growth, margin improvements, modernisation and better systems and improved product being developed throughout the year. Growth in online reservations continues from the ongoing development of both the live reservation system and our company website. There has also been social media booking success necessary in the digital age and in line with the top tourist operations within New Zealand. The new reservation system has resulted in a strong level of presales of product. 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 visitor numbers to New Zealand grew just 0.3% but our Chinese numbers on the daily train increased by 29% over the year to become 9.8% of our total daily train customers compared 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. We continue to store the decommissioned AO class carriages for KiwiRail at Middlemarch. Continuing negotiations with KiwiRail have led to our assessment of one of these carriages for strengthening work and we are close to a decision on possible purchase of some of these carriages. The condition of our track has improved during the year in line with our track improvement strategy. There has been a substantial increase in sleeper replacement with 2,796 sleepers placed during the year exceeding our 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.

Strategic Initiatives

The Strategic Plan was introduced in July 2014 with KPI measures updated annually in order to manage the strategic plan. These measures are reported upon monthly and have been the driver for increased business levels and improved returns per customer carried.

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Outlook

Business levels for the daily train have been constrained since the Christchurch earthquakes, and further by the Kaikoura earthquake and cruise ship cancellations. However, these are one off events and tourism growth has been increasing strongly in New Zealand for over 2 years, therefore the company is well placed to share this growth once regional visitor dispersal eventually takes place. Ministry of Business, Innovation and Employment forecasts show good tourism growth in the years ahead which underlines our future prospects. The forward cruise ship market is also looking stronger. As a result, we look forward with some confidence to market growth and to satisfactory financial results in the medium term.

Subsequent to the end of the year the company has experienced significant track and formation and culvert damage from a large rain event on 21 and 22 July 2017. Repair costs are likely to be at least \$400 000 and there is loss of income as well. This will impact on our financial results in the year ahead. However, maintenance and capital work on the track can be deferred out of the current year with no safety concerns therefore reducing the negative effect on our cash situation even though profitability will reduce considerably from earlier forecasts. The company has sufficient borrowing capacity in its existing evergreen facility with Dunedin City Treasury Limited to cover these additional expenses.

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 2017 are attached to this report.

Directors' Interests in Contracts

No material contracts involving directors' interests were entered into during the year ended 30 June 2017 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 3.5 years	Chairman	\$22,502
	Director 3.5 years	Appointed by DCC	
G M T Williams	Deputy Chairman 15 years	Deputy Chairman	\$15,744
	Director 19 years	Appointed jointly by DCC/OETT	
F J McCall	Director 18.5 years	Non-Executive Director	\$7,872
	Retired December 2016	Appointed by DCC	
R Roberts	Director 0.5 years	Non- Executive Director	\$7 872
	Appointed December 2016	Appointed by DCC	
Hon. Stan Rodger	Director 7 years	Non-Executive Director	\$15,744
		Appointed by DCC/OETT	
G M Smart	Director 2.6 years	Non-Executive Director	\$15,744
		Appointed by OETT	
D W Wood	Director 4.5 years	Non-Executive Director	\$15,744
		Appointed by OETT	
			<u>\$101,222</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 2017. 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 no monetary donations during the year ended 30 June 2017.

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 2017 is \$19,802.

Events Subsequent to Balance Date

The directors are not aware, except as noted in the Outlook section on page 6 of these statements, 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: 29 September 2017

TAIERI GORGE RAILWAY LIMITED

Statement of Comprehensive Income

For the Year Ended 30 June 2017

	Notes	Year Ended 30 June 2017 \$'000	Year Ended 30 June 2016 \$'000
Continuing Operations			
Revenue	4	6,939	6,578
Total revenue		6,939	6,578
Less expenses			
Audit fees - audit of annual report		20	20
Contractors		1,197	1,006
Depreciation		319	309
Directors Fees		101	99
Employee expenses		2,942	2,720
Financial expenses		43	45
Raw materials and consumables used		1,094	1,110
Other expenses		991	1,078
Total expenses		6,707	6,387
Profit(Loss) before tax		232	191
Income tax expense(credit)	7	60	54
Net Profit(Loss) from continuing operations		172	137
Other comprehensive income		-	-
Total comprehensive income		172	137
Earnings per share from continuing operations (cents per share)		10.96	8.70

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 2017

	Note	Year Ended 30 June 2017 \$'000	Year Ended 30 June 2016 \$'000
Equity at beginning of year		2,023	1,886
Comprehensive Income			
Profit/(Loss) from continuing operations		172	137
Total Comprehensive Income		172	137
Less distribution to owners	5	-	-
Equity at the end of the year		2,195	2,023

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

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Statement of Financial Position

As at 30 June 2017

	Note	30 June 2017 \$'000	30 June 2016 \$'000
Equity			
Share capital	8	1,572	1,572
Retained earnings	9	623	451
Total Equity		2,195	2,023
Current Liabilities			
Provision for employee entitlements	11	276	308
Trade and other payables	10	400	497
Other current liabilities (provisions)	11	186	144
Shareholders advances	12	325	325
Taxation payable	7	8	-
Total current liabilities		1,195	1,274
Non-Current Liabilities			
Provision for employee entitlements	11	19	12
Deferred tax liability (asset)	13	72	58
Term borrowings	21	335	285
Total non-current liabilities		426	355
Total Liabilities		1,621	1,629
TOTAL EQUITY AND LIABILITIES		3,816	3,652

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

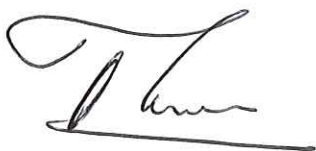
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Statement of Financial Position (continued)

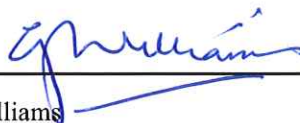
As at 30 June 2017

	Note	30 June 2017 \$'000	30 June 2016 \$'000
Current Assets			
Cash and cash equivalents	17	161	112
Trade and other receivables	18	159	45
Inventories	19	184	176
Tax refund receivable	7	-	28
GST refund receivable		3	36
Total current assets		507	397
Non-Current Assets			
Property, plant and equipment	20	3,309	3,255
Total non-current assets		3,309	3,255
TOTAL ASSETS		3,816	3,652

For and on behalf of the Board of Directors



G R Thomas
Chairman
Date: 29 September 2017



G M T Williams
Deputy Chairman
Date: 29 September 2017

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

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Statements of Cash Flows

For the Year Ended 30 June 2017

	Note	Year Ended 30 June 2017 \$'000	Year Ended 30 June 2016 \$'000
Cash Flows from Operating Activities			
<i>Cash was provided from</i>			
Receipts from customers		6,839	6,571
Interest received		-	-
Subvention receipts		-	-
		<u>6,839</u>	<u>6,571</u>
<i>Cash was disbursed to</i>			
Payments to suppliers and employees		6,421	6,021
Interest paid		43	46
Income tax paid		10	70
Net GST paid		(7)	(14)
Subvention to DVL/DVML		-	-
		<u>6,467</u>	<u>6,123</u>
Net Cash Inflows/(Outflows) from operating activities		372	448
Cash Flows from Investing Activities			
<i>Cash was provided from</i>			
Sale of property, plant and equipment		-	-
		<u>-</u>	<u>-</u>
<i>Cash was disbursed to</i>			
Purchase of property, plant and equipment		373	411
		<u>373</u>	<u>411</u>
Net Inflows/(Outflows) from Investing Activities		(373)	(411)
Cash Flows from Financing Activities			
<i>Cash was provided from</i>			
Proceeds from borrowings		1,700	1,668
		<u>1,700</u>	<u>1,668</u>
<i>Cash was disbursed to</i>			
Repayments of borrowings		1,650	1,600
		<u>1,650</u>	<u>1,600</u>
Net Cash Inflows/(Outflows) from Financing Activities		50	68
Net Increase/(decrease) in Cash, Cash Equivalents and Bank Overdraft		49	105
Cash and cash equivalents at the beginning of the year		112	7
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	17	<u>161</u>	<u>112</u>
Composition of Cash			
Cash and cash equivalents		161	112
Bank overdraft		-	-
CASH AND CASH EQUIVALENTS AT END OF YEAR	17	<u>161</u>	<u>112</u>

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

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Notes to the Financial Statements

For the Year Ended 30 June 2017

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 2017. The financial statements were authorised for issue by the directors on 29 September 2017.

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 2017 year.

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.

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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.

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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.

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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.

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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.

	2017 \$'000	2016 \$'000
4. REVENUE		
Taieri Gorge Limited tourist train	3,661	3,497
Excursions/Charters	2,096	2,027
Dunedin Silver Fern	978	846
Other	170	165
Agency Commission	34	43
	<u>6,939</u>	<u>6,578</u>

Gross Revenue of the company inclusive of Travel Agency revenue was \$7,142,798 (2016: \$6,784,034)

5. DIVIDENDS

No dividends were paid by the company (2016: \$0)

6. EARNINGS PER SHARE

Earnings per share from continuing operations (cents per share)	10.96	8.70
Number of shares	1,571,900	1,571,900

	2017 \$'000	2016 \$'000
7. INCOME TAX		
Operating surplus/(loss) before tax - continuing operations	232	191
Operating surplus/(loss) before income tax	<u>232</u>	<u>191</u>
Tax thereon at 28%	65	54
<i>Plus / (Less) the Tax Effect of Differences</i>		
Revenue not liable for taxation	(5)	-
Expenditure not deductible for taxation	-	-
Under/(over) provision in prior years	-	-
Tax effect of differences	<u>(5)</u>	<u>-</u>
Tax expense	<u>60</u>	<u>54</u>

TAIERI GORGE RAILWAY LIMITED

	2017 \$'000	2016 \$'000
Effective tax rate	26%	28%
<i>Represented by</i>		
<u>Current tax provision</u>		
Prior period adjustment	-	(5)
Current tax movement	46	49
<u>Current deferred tax provision</u>		
Deferred tax movement	14	5
(Under) /over tax provision in prior years	-	5
Income tax	<u>60</u>	<u>54</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	451	314
Total comprehensive income	172	137
Dividend distributions	-	-
Balance at the end of the year	<u>623</u>	<u>451</u>

10. TRADE AND OTHER PAYABLES

Trade payables	397	496
Due to related parties	3	1
	<u>400</u>	<u>497</u>

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

TAIERI GORGE RAILWAY LIMITED

	2017 \$'000	2016 \$'000
11. OTHER LIABILITIES		
Current		
Accruals/Debtor prepayments	186	144
Employee entitlements	276	308
	<u>462</u>	<u>452</u>
Non Current		
Employee entitlements	19	12

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

	2017 \$'000	2017 \$'000	2017 \$'000	2017 \$'000	2017 \$'000	2017 \$'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	135	-	6	-	141	141
Employee entitlements	(73)	-	8	(65)	-	(65)
Provisions and adjustments	(4)	-	-	(4)	-	(4)
Tax losses	0	-	-	-	-	-
Balance at the end of the year	<u>58</u>	<u>0</u>	<u>14</u>	<u>(69)</u>	<u>141</u>	<u>72</u>
	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	-	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>

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

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	2017	2016
	\$'000	\$'000

14. CONTINGENT LIABILITIES AND ASSETS

The company has no contingent liabilities and assets (2016: 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	89	88
Payable between one to five years	171	243
Payable later than five years	-	-
	=====	=====
	260	331
	=====	=====

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 \$306,000 (2016: \$318,000)

17. CASH AND CASH EQUIVALENTS

Cash and Bank	161	112
	=====	=====

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.

TAIERI GORGE RAILWAY LIMITED

	2017 \$'000	2016 \$'000
18. TRADE AND OTHER RECEIVABLES		
Trade receivables	158	44
	<u>158</u>	<u>44</u>
Due from related Parties	1	1
	<u>159</u>	<u>45</u>
	<u><u>159</u></u>	<u><u>45</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	168	162
Consumables for resale	16	14
	<u>184</u>	<u>176</u>
Total Inventories	<u><u>184</u></u>	<u><u>176</u></u>

TAIERI GORGE RAILWAY LIMITED

20. PROPERTY, PLANT AND EQUIPMENT	2017	2017	2017	2017	2017	2017	2017
	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	4,638	734	394	277	501	6,569
Increase through acquisition	-	-	-	-	-	-	-
Purchases/revaluation	-	153	75	6	-	126	360
Sales/prior period adjustment	-	-	-	-	-	-	-
Transfer to assets held for sale	-	-	-	-	-	-	-
Balance at end of period	25	4,791	809	400	277	627	6,929
Accumulated depreciation							
Balance at beginning of period	22	2,324	540	282	172	186	3,526
Depreciation	-	233	38	26	16	6	319
Impairment	-	-	-	-	-	-	-
Sales/prior period adjustment	-	-	-	-	-	-	-
Transfer to assets held for sale	-	-	-	-	-	-	-
	22	2,557	578	308	188	192	3,845
Balance at end of period	3	2,234	231	92	89	435	3,084
Comprising - Cost	3	2,234	231	92	89	435	3,084
	2017	2017	2017				
	Sub -Total	Work in Prog.	Total				
	\$'000	\$'000	\$'000				
Cost							
Balance at beginning of period	6,569	212	6,781				
Increase through acquisition	-	-	-				
Net Purchases/ revaluation	360	13	373				
Sales/prior period adjustment	-	-	-				
Transfer to assets held for sale	-	-	-				
Balance at end of period	6,929	225	7,154				
Accumulated depreciation							
Balance at beginning of period	3,526	-	3,526				
Depreciation	319	-	319				
Impairment	-	-	-				
Sales/prior period adjustment	-	-	-				
Transfer to assets held for sale	-	-	-				
	3,845	-	3,845				
Balance at end of period	3,084	225	3,309				
Comprising - Cost	3,084	225	3,309				

TAIERI GORGE RAILWAY LIMITED

20. PROPERTY, PLANT AND EQUIPMENT	2016	2016	2016	2016	2016	2016	2016
	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	4,364	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
	2016 Sub -Total \$'000	2016 Work in Prog. \$'000	2016 Total \$'000				
Cost							
Balance at beginning of period	6,121	248	6,369				
Increase through acquisition	-	-	-				
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				

TAIERI GORGE RAILWAY LIMITED

	2017 \$'000	2016 \$'000
21. TERM BORROWINGS		
Dunedin City Treasury Limited	335	285
	<u>335</u>	<u>285</u>
Current	<u>0</u>	<u>0</u>
Non current	335	285

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:

	2017 \$'000	2016 \$'000
Ticket sales (Visitor Centre)	157	159
	<u>157</u>	<u>159</u>
	<u><u>157</u></u>	<u><u>159</u></u>

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

Rates, events, leases (Dunedin City Council)	77	76
Interest paid (Dunedin City Treasury Limited)	43	45
	<u>120</u>	<u>121</u>
	<u><u>120</u></u>	<u><u>121</u></u>

Major Transactions with the Otago Excursion Train Trust

Sales of services to the Otago Excursion Train Trust:

Charters / Sales	3	-
Equipment reimbursed by Shareholders Advance	-	-
	<u>3</u>	<u>-</u>
	<u><u>3</u></u>	<u><u>-</u></u>

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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 D W Wood, Director of Taieri Gorge Railway Limited, with whom contractor purchases of \$150 were undertaken.

Mr G M Smart, Director Taieri Gorge Railway Limited, with whom contractor purchases of \$200 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:

	2017	2016
	\$'000	\$'000
Directors' Fees	101	99
Chief Executive (total remuneration)	137	138

24. EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to the end of the year the company has experienced significant track and formation and culvert damage from a rain event on 21 and 22 July 2017. Repair costs are likely to be at least \$400 000 and there is a loss of income as well. This will impact on our financial results in the year ahead. However, maintenance and capital work on the track can be deferred out of the current year with no safety concerns therefore reducing the negative effect on our cash situation even though profitability will reduce considerably from earlier forecasts. The company has sufficient borrowing capacity in its existing evergreen facility with Dunedin City Treasury Limited to cover these additional expenses.

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 2017:

1. Safety and Compliance

- How many Health and Safety Committee meetings held per year?

Achieved. There is a target of a minimum of 3 Board Health and Safety meetings and 9 Staff Health and safety meetings, and there have been 4 Board Health and Safety Committee meetings and 10 staff Health and Safety Committee meetings during the year all minuted.

- Safety System and Risk Register has been reviewed/audited.

Achieved. The annual Safety Audit was completed in November 2016 and the Risk Register is undergoing a continuous review.

- Monthly Board reports contain and Health and Safety report.

Achieved. Included in every monthly Board report.

- To pass the Safety Audit and be issued with a Rail Service Licence.

Achieved. Completed November 2016 and Rail Service Licence retained.

- A minimal accident record not exceeding four work related lost time injuries per 100,000 hours worked.

Achieved. There were three work related accidents with less than 100,000 hours worked by staff in the year.

2. Financial

- Revenue increase and a financial result which is at least break even.

Achieved. Revenue increased by 5.5% and a profit was achieved.

- Bank debt reduced from previous year.

Not achieved for borrowings with the net cash situation deteriorating by \$1 662.

- Monthly passenger activity to the Board. Financial risk analysis undertaken and mitigation measures reported to the Board as required.

Achieved. Included in monthly reports with forward projection showing month ahead and comment/measures where required on financial exceptions.

3. Marketing and Business Objectives

- Invest in a minimum of 2 promotional campaigns a year with industry partners.

Achieved with participation in the Auckland trade show and Australian winter campaign with Enterprise Dunedin

- Carry at least 80 000 passengers on no fewer than 700 trips per annum. How many initiatives have been implemented to improve business performance?

Achieved. There were 87 094 passengers carried on 729 trips. Initiatives to improve business performance include reduction in bank charges and Facebook marketing of key new trips.

- Increase in trips to new destinations.

Achieved. Two Southern Rail Tour trips during the year are trips to new destinations.

4. Customer Service

- Monitor Trip Advisor to ensure customer satisfaction levels of 85% or better.

Achieved. Current satisfaction level is 90%.

- Investigate the introduction of a new customer service survey.

Achieved. New customer survey introduced May 2017.

5. Infrastructure

- No delays to regular scheduled passenger operations.

Not achieved. Increased resleeper programme, tunnel safety restrictions and bridge improvement programme has resulted in delays to train services.

- Continuation of and development of an Asset Management Plan.

Achieved. The Vault system has been successfully introduced and developed during the year.

6. Human Resources

- Increase level of staff training and to update staff files to show individual training records.

Achieved. Staff training is now listed for the first time with training records entered into our Asset management system.

TAIERI GORGE RAILWAY LIMITED

- Each senior staff member has a formal annual performance survey.

Not achieved.

- Develop an annual staff engagement survey.

Achieved. Carried out late 2016.

- No breaches of EEO policy.

Achieved. No adverse comments on this issue during the year.

- Staff turnover not to exceed 15%.

Achieved. Staff turnover was 10.8%

7. Shareholders

- In the annual company's Statement of Intent consideration having been given to shareholders' expectations.

Achieved. In accordance with new DCC/DCHL policy this report substantially elongated to ensure shareholder requirements are reported.

- Number of matters that have been escalated to shareholders.

Achieved. There have been no items to report but, as part of the no-surprises policy, a new section has been included in monthly Board reports to shareholders to stage-set any such events.

- Number of substantive "no-surprises" matters that have been reported to shareholders within 24 hours.

Achieved. None needed to be reported but action initiated as in the previous item.

8. DCC Strategies Social and Wellbeing

- Number of volunteer hours to host trips in the year. Continue with a Memorandum of Co-Operation with OETT for the use of volunteer staff.

Achieved through use of volunteers with 7 629 volunteer hours recorded versus 7 198 in the previous year. The Memorandum of Co-operation with OETT was renewed during the year.

- Free train tickets given to community organisations/events. Continuation of relationship with Cadbury and Childcare Association to run train trips for their events. Agree for access to the station/train for community activities.

Achieved. Free tickets continue to be issued, Cadbury and schools and kindergartens continue to have trips and we have agreed for music and dance groups to use Dunedin Railway Station.

- Run train services to rural and coastal areas of Dunedin and Otago.

Achieved. Continuation of train services to inland rural areas and on the coastline north of Dunedin.

- "Grade A" Dunedin City Council Food Hygiene certificate achieved. What measures are in place to keep staff and visitors safe?

Achieved. A Grade rating maintained. Safety System and Plan maintained by company to cover staff and visitor safety.

- Annual Leave balance stable or falling.

Achieved. Balance reduced by 3.1% in spite of increased payroll.

9. DCC Strategies Economic Development

- Domestic and international income earned maintained or grows per annum. To stay in the top 5 out of 37 on Trip Advisor.

Achieved. Current rating is 3rd out of 51 Dunedin tours.

- Number of Board meetings the "Emerging Director of the Year" winner attends.

Not achieved. The initiative did not involve TGRL during this year.

- What initiatives have been introduced to increase numbers from cruise ships? Growth in percentage of customers from outside the city?

Shore excursion brochures distributed to each ship, pull up posters and marketing flash drives supplied to most ships. Increase of 3.15% in customers on daily train from outside Dunedin.

- New Marketing Plan introduced during the year. Develop a customer survey to evaluate customer perceptions. Evidence of participation in Enterprise Dunedin marketing campaigns.

Not achieved. New Marketing Plan delayed. Customer survey introduced early 2017. Participated in Auckland Australia campaigns with Enterprise Dunedin.

- Continue with Track and Trail train and coach service from and to Queenstown.

Achieved with the service running daily in the tourist season.

10. DCC Strategies Environment

- Recycle plastic/cardboard waste generated

Achieved. Recycling of plastic/cardboard and glass carried out during the year.

TAIERI GORGE RAILWAY LIMITED

- Weed control operation carried out

Achieved with weed control operation during the Spring period.

- How many passengers per litre of fuel compared to previous year?

Not achieved. There is a goal to improve passenger numbers per litre of fuel used but there was a reduction of 1.4% in this statistic over the year as a result of the new safety requirement to have 2 locomotives per train

11. DCC Strategies Arts and Culture

- Work with ID Fashion committee to ensure event can happen at Dunedin Station while train operations continue.

Achieved. Event took place Dunedin Railway Station March 2017 with extensive liaison TGRL/ID.

- Maintain a heritage plaque at Dunedin Railway Station and report to the City any station building heritage deterioration.

Achieved. Heritage plaque on platform and regular verbal liaison with DCC on station issues.

- To increase number of train services within the city from the previous year.

Not achieved. Reduction in services from 743 to 729.

12. DCC Strategies Spatial Plan

- To make Dunedin look good measured by the number of trains run and the Trip Advisor rating for the train services.

Achieved. There were 729 trips run during the year and the Trip Advisor rating has been maintained during the year.

- Investigate use of biodiesel.

Achieved. Investigated but no regular supplier who can deliver to the train in Dunedin.

- The Company does not disturb the heritage nature of aspects of the line measured by any complaints.

Achieved. All efforts taken to protect heritage and no complaints received on this matter.

- What work has been completed in the Taieri Gorge on weed control?

Achieved. Carried out by contractor over the summer months.

- Retention of in-house maintenance teams.

Achieved. Both the Workshop and Track and Structures maintenance teams retained during the year.

- Retention of an accessible carriage and access ramps.

Achieved. Carriage P with wheelchair lift available as-required daily and access ramps at Dunedin Station for all trains.

13. DCC Strategies Parks and Recreation

- Running trains to the Strath Taieri to connect with the Rail Trail and provision of toilet facilities at Pukerangi and Middlemarch and on the train.

Achieved. Liaison throughout the year with rail trail operators and continuing rail trail business with these operators. Toilets on every train and continued provision of toilets at Pukerangi and Middlemarch.

- Continuation of the annual Walk the Gorge initiative.

Achieved with the event taking place on 7 May 2017.

14. DCC Strategies Integrated Transport

- Taking passenger freight on suitable vans and investigating opportunities for bulk freight transport.

Achieved. Van on all trains for passenger freight and investigation during the year into bulk freight transport from Middlemarch.

- Maintenance of a regular train/coach tourist service to and from Queenstown and a train service to and from Oamaru.

Achieved. Track and Trail train/road service ran throughout the tourist season and monthly trips to and from Oamaru continued.

15. DCC Strategies Three Waters

- No discharges into waterways from operations.

Achieved. No known discharges and no issues with ORC on this matter.

TAIERI GORGE RAILWAY LIMITED

DIRECTORY

As at 30 June 2017

DIRECTORS

G R Thomas (Chairperson)
G M T Williams (Deputy Chairperson)
F J McCall (retired December 2016)
R Roberts (appointed December 2016)
Hon. Stan Rodger
G M Smart
D W Wood

CHIEF EXECUTIVE

M J Bond

REGISTERED OFFICE

50 The Octagon
Dunedin
New Zealand

POSTAL ADDRESS

PO Box 140
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New Zealand
Phone: 0064-3-477-4449
Fax: 0064-3-477-4953
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 2017

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 performance information of the company on his 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 2017, 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 31.

In our opinion:

- the financial statements of the company on pages 8 to 28:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2017; 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 New Zealand equivalents to International Financial Reporting Standards with reduced disclosure requirements.
- the performance information of the company on pages 29 to 31 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 2017.

Our audit was completed on 29 September 2017. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

Basis for opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

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

Responsibilities of the Board of Directors for the financial statements and the performance information

The Board of Directors is responsible on behalf of the company for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparing the performance information for the company.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the company for assessing the company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Directors intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

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

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit 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.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported performance information within the company's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 2 to 7, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the company in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

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

A handwritten signature in black ink, appearing to read 'S Tobin', with a long horizontal line extending from the top of the 'n'.

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