

Notes to the Financial Statements

For the six months ended 31 December 2018

1. CORPORATION INFORMATION

(a) REPORTING ENTITY

New Zealand Railways Corporation (“Corporation”) is a statutory corporation established pursuant to the New Zealand Railways Corporation Act 1981 and is included within the First Schedule of the State-Owned Enterprises Act 1986. The Corporation is designated as a Public Sector Public Benefit Entity (PBE) defined as “a reporting entity whose primary objective is to provide goods and services for community or social benefit and where equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders”.

The primary objective of the Corporation is to make available approximately 17,700 hectares of railway land to KiwiRail Holdings Limited to enjoy the commercial benefit of the land for nominal consideration.

The interim financial statements are for the six months ended 31 December 2018 and were authorised for issue by the Board of Directors on 12 February 2019.

(b) BASIS OF PREPARATION

Statement of compliance

These interim financial statements for the six months ended 31 December 2018 have been prepared in accordance with PBE IAS 34 Interim Financial Reporting. They comply with the New Zealand Railways Corporation Act 1981 and the State-Owned Enterprises Act 1986.

These unaudited, condensed interim financial statements do not include all information and disclosures required in the annual financial statements, and should be read in conjunction with the Corporation’s Annual Report for the year ended 30 June 2018.

The financial statements have been prepared on a historical cost basis, except for land and buildings that are measured at fair value.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000) unless otherwise stated.

Changes in accounting policies

There have been no changes in accounting policies in the current financial year. All policies have been applied on a basis consistent with those used in previous periods. There were no new accounting standards and interpretations issued effective from 1 July 2018 applicable to the Corporation.

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2. OPERATING REVENUES

	6 months ended 31 Dec 2018 (Unaudited)	6 months ended 31 Dec 2017 (Unaudited)	Year ended 30 June 2018 (Audited)
	\$000	\$000	\$000
Operating revenues from non-exchange transactions	43	50	88
Total operating revenues	43	50	88

Operating revenue consists solely of management fees charged to KiwiRail Holdings Limited under the Management Agreement. In accordance with the Management Agreement any operating costs incurred by the Corporation are charged to KiwiRail Holdings Limited as management fees, such that the Corporation makes no operating surplus or deficit.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable by the Corporation and represents amounts receivable for goods and services provided in the normal course of business once significant risk and rewards of ownership have been transferred to the buyer.

3. OPERATING EXPENSES

	6 months ended 31 Dec 2018 (Unaudited)	6 months ended 31 Dec 2017 (Unaudited)	Year ended 30 June 2018 (Audited)
	\$000	\$000	\$000
Insurance	21	20	20
Audit fees	-	-	8
Directors' fees	22	30	60
Total operating expenses	43	50	88

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4. SALE AND PURCHASE OF LAND

From time to time the Corporation may sell parcels of railway land. Under the lease agreement with KiwiRail Limited (part of the KiwiRail Holdings Limited Group (the Group)) entered into on 31 December 2012, the Group may identify railway land that should be sold and request the Corporation to sell it or surrender it from the lease. The sale proceeds are provided to the Group to support its business as the State Owned Enterprise responsible for the financial performance of the Crown's investment in rail operations. The Corporation may incur an accounting loss following a sale of railway land because the value of the land is in the Corporation's asset base.

Where land has previously been revalued any gain or loss is based on the valuation and any revaluation reserve relating to the land sold is released through the Statement of Changes in Equity.

Similarly, the Group can identify new parcels of land that are required for rail purposes. The Group will fund the acquisition of the land and can transfer it to the Corporation to be included within the lease.

The sale and purchase of land are treated as common control transactions as the Crown is the ultimate parent of the Group and the Corporation. The sale of the Corporation's land and the transfer of the proceeds is regarded as a reduction in equity of the Corporation whilst the Group's acquisition of land for the Corporation is treated as an increase in equity of the Corporation.

The following represents the financial impact of land sold and purchased after the vesting date which impacts the current financial year.

	6 months ended 31 Dec 2018 (Unaudited)	6 months ended 31 Dec 2017 (Unaudited)	Year ended 30 June 2018 (Audited)
	\$000	\$000	\$000
Net proceeds from land sold	(2,642)	(4,797)	(4,802)
Net proceeds from land swap			
Land given up	(165)	-	-
Land acquired	80	-	-
Net	(85)	-	-
Cost of land acquisitions	-	-	1,676
Net impact of sale and purchase of land charged to equity	(2,727)	(4,797)	(3,126)

	6 months ended 31 Dec 2018 (Unaudited)	6 months ended 31 Dec 2017 (Unaudited)	Year ended 30 June 2018 (Audited)
	\$000	\$000	\$000
Carrying value of land sold/transferred	(2,526)	(3,341)	(3,415)
Carrying value given up from land swap	(100)	-	-
Net proceeds from sale of land	2,727	4,797	4,802
Net gain on sale and purchase of land recognised in Statement of Financial Performance	101	1,456	1,387

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5. CONTINGENT LIABILITIES

Treaty of Waitangi claims

Claims lodged under the Treaty of Waitangi Act 1975, in respect of land and other assets currently or previously administered by the Corporation, have not been recognised in these financial statements. Since 1 July 1993 such claims are considered to be the responsibility of the Crown rather than that of the Corporation and administered by the Office of Treaty Settlements, Ministry of Justice. The outcome of these claims is uncertain at this stage and an estimate of financial effect is not practicable.

Option to purchase land at rear of Wellington Railway Station

Right of purchase over land at the rear of the Wellington Railway Station - valuation discussions will continue with the Taranaki Whānui ki Te Upoko o Te Ika and The Port Nicholson Block Settlement Trust, which has an option to purchase land at the rear of the station building until 2019. The process relating to the option to purchase is expected to be finalised by December 2019 with valuation and highest and best use costs to be established to underpin value prior.