As indicated in my last year's Statement, the policy of strengthening the lines so as to accommodate larger and heavier locomotives should be steadily pursued, wherever the cost of transit can be reduced by such measures. The recent development of traffic, which has been altogether unexpected and unprecedented, has convinced me that this work should be pushed on more rapidly. To enable this to be done, however, more generous provision by Parliament for the purpose requires to be provided.

The Head Office expenditure is less by £1,186 than for the previous year, £521 having been paid last year as compensation to two members on leaving the service, and £712 having been charged this year to the Midland Trust Account on account of management, from May 27th, 1895, to March 31st, 1898. The departmental and district management expenses show a large increase (£3,177), which, in view of the increased business and heavier expenditure both on account of working expenses and capital account, is fully accounted for.

4. EXPENDITURE, CAPITAL ACCOUNT.

The additions to open lines charged to capital account have involved an expenditure during the year of £156,731, charged as follows:—

£72,109 on account of one locomotive, fifteen new carriages, 295 more brake-vans and wagons, 478 additional tarpaulins, and a quantity of workshop machinery, which have been completed and added to the available plant; also, on account of twelve locomotives, thirty-seven carriages, 338 brake-vans and wagons, and 522 tarpaulins, which were under construction in our railway workshops at the close of the financial year; £31,964 on account of stores and material procured for new rolling-stock, to be built during the current year; £9,828 on account of providing the bogie carriages with compressed gas for lighting purposes. Considerable progress has been made with this system of lighting our carriages, which continues to give every satisfaction. £42,830 on account of additions to wharves, station-buildings, platforms, sidings, workshops, bridges, dwellings, water-services, loading-banks, cattle- and sheep-yards, telegraphs, telephones, signals, &c.

Further additions to the rolling-stock have been put in hand, and in respect to carriage and wagon work are expected to keep the shops going till August, 1898. The locomotive work in hand cannot be completed before 1900.

5. MIDLAND RAILWAY: RESULTS OF WORKING.

The revenue for the last year has been £19,382, as compared with £17,768 for the previous year, an increase of £1,614.

The expenditure has been £14,188, as compared with £14,885 for the previous year.

The expenditure per cent. of revenue is 73·20 this year, as against 83·77 per cent. last year.

The net result of profit is £5,194, against £2,883 last year.

The rate of interest earned on capital cost (£760,000) is 13s. 8d. per cent.

The expenditure on up-keep is expected to increase during the current year. The Midland lines are very liable to flood damage, and heavy expenditure must be incurred from time to time on this account. Sleeper renewals are expected to be very heavy in the immediate future.

The rolling-stock on the Midland Railway is found insufficient for the traffic requirements, and steps are being taken to provide additional accommodation in this direction.

6. CONCLUDING REMARKS, AND FORECAST.

The Government has recognised that, in a large undertaking such as the New Zealand State Railways, ample provision at the cost of working expenses should be made for depreciation, and, with this object in view, is regularly spending large sums, charged to working expenses, for renewals of permanent-way, structures, and rolling-stock; so that the people's property is in as good a condition to-day as it was three years ago, whilst during that period eighty-five miles of light lines have been greatly improved by relaying eighty-one miles of 40 lb. road with 53 lb. and 56 lb. rails, and four miles of 30 lb. road with 40 lb. rails, also charged to working expenses. In addition, £37,989 have been debited to working expenses for new work fairly chargeable to capital.