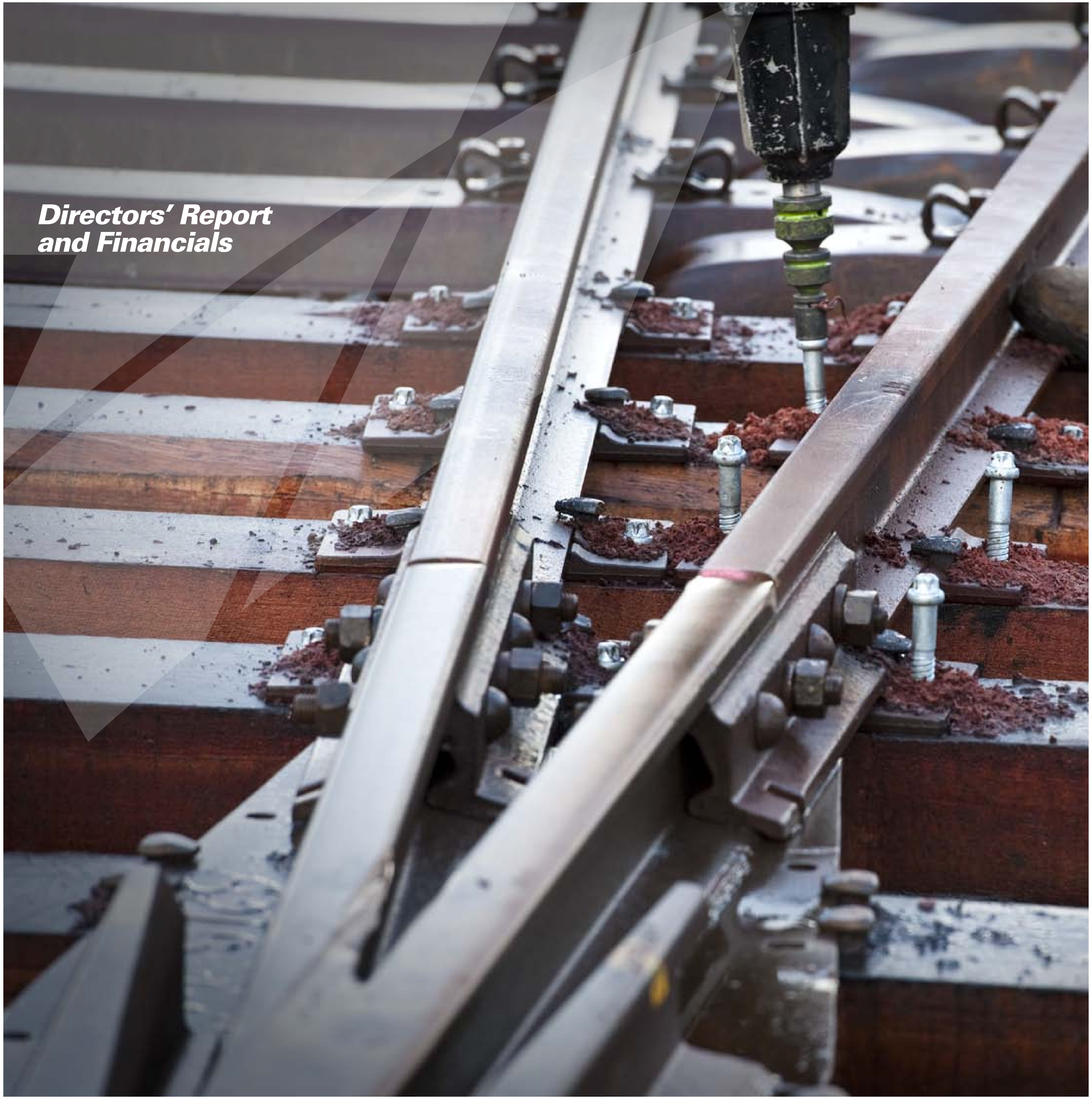

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Directors' Report for the period ended 30 June 2010

The Directors present their report together with the financial report of Tasmanian Railway Pty Limited ("the Company") for the financial period ended 30 June 2010 and the auditor's report thereon. The Company was incorporated on 4 November 2009.

1. Directors

The Directors of the Company at any time during or since the establishment of the Company are:	
Name and independence status	***Special responsibilities and other directorships***
Mr Robert Annells Executive Chairman Appointed: 17 November 2009	Chairman – Remuneration Committee Member – Operations & Safety Committee Chairman – Tourism Tasmania Director – Tasmanian Development Board
Mr John Fullerton Independent Non-Executive Director Appointed: 6 December 2009	Chairman – Operations & Safety Committee Member – Capital Infrastructure Committee Member – Remuneration Committee Chairman – Co-operative Research Centre for Rail Innovation Director – Rail Industry Safety and Standards Board
Mr Roger Gill Chief Executive Officer (from 23 November 2009 to 28 April 2010) Independent Non-Executive Director Appointed: 4 November 2009	Chairman – Capital Infrastructure Committee Member – Remuneration Committee Member – Strategy & Risk Committee Director – Tasmanian Irrigation Development Board Director – Southern Regional Water and Sewerage Corporation Director – Hydro Focus Pty Ltd
Mrs Sarah Merridew Independent Non-Executive Director Appointed: 6 December 2009	Chairman – Finance, Audit and Compliance Committee Member – Remuneration Committee Member – Operations & Safety Committee Director – MyState Limited Director – Ben Lomond Water Corporation
Mr Robert Neil Independent Non-Executive Director Appointed: 4 November 2009	Chairman – Strategy & Risk Committee Member – Finance, Audit and Compliance Committee Member – Remuneration Committee Director – Neil Consulting Pty Ltd

Directors' Report for the period ended 30 June 2010

The number of Directors' Board and Committee Meetings and the number of Board and Committee Meetings attended by each of the Directors of the Company for the period of 6th of November 2009 to 30th of June 2010 inclusive are:

Director	Meetings Held	Meetings Attended
Robert Annells	9	9
John Fullerton	7	7
Roger Gill	10	10
Sarah Merridew	7	7
Robert Neil	10	10

Note: Some Directors were appointed on different dates hence a variation in the number of meetings held and attended.

Finance, Audit and Compliance Committee

Director	Meetings Held	Meetings Attended
Sarah Merridew	3	3
Robert Neil	3	3

Operations and Safety Committee

Director	Meetings Held	Meetings Attended
Robert Annells	0	1*
John Fullerton	3	3
Sarah Merridew	3	2

Strategy and Risk Management Committee

Director	Meetings Held	Meetings Attended
Roger Gill	4	4
Robert Neil	4	4

Capital Infrastructure Committee

Director	Meetings Held	Meetings Attended
Robert Annells		1*
John Fullerton	2	1
Roger Gill	2	2
Robert Neil		2

Remuneration Committee

Director	Meetings Held	Meetings Attended
Robert Annells	1	1
John Fullerton	1	1
Roger Gill	1	1
Sarah Merridew	1	1
Robert Neil	1	1

[1] *Attended as Proxy for absent Committee Member.*

Directors' Report for the period ended 30 June 2010

2. Principal activities

The Company was established as a vertically integrated Company to own and operate the rail freight business in Tasmania. The Company is a State-owned company, the shareholders being the Tasmanian Treasurer and the Tasmanian Minister for Infrastructure.

The principal activities of the Company during the course of the financial period were the provision of rail freight services in Tasmania. There were no significant changes in the nature of the activities of the Company during the period.

3. Operating and financial review

Overview

On 1 December 2009 the Company acquired the Tasmanian rail assets previously owned by Pacific National (Tasmania) Pty Ltd and assumed responsibility for the rail network and related assets owned by the Tasmanian Government.

Operating segments

Consistent with the Tasmanian *Rail Company Act 2009*, the company's business is operated in these two distinct segments, Below Rail and Above Rail.

Below Rail

This segment relates to the management and operation of the Tasmanian rail network and related infrastructure, including all maintenance and capital programmes. The railway is a narrow gauge railway built in the late 1800s and the current line still uses much of the original formation and alignment. The Tasmanian rail network consists of 632 kilometres of operational track and 213 kilometres of non-operational track.

Above rail

This segment relates to the provision of rail freight services in Tasmania. In addition, the Company owns and operates the Burnie bulk storage and shiploader facility.

Operating result

The net loss after income tax for the period 1 December 2009 to 30 June 2010 is $10,007,675. This has been calculated in accordance with Australian Accounting Standards (AASBs). Segment results were made up of the following, Below Rail net loss of $8,722,017 and Above Rail net loss of $1,285,658

4. Environmental regulations

The Company's operations are subject to significant environmental regulations under both Commonwealth and State legislation. The primary legislation is the *Environmental Protection Act 1994*.

No breaches of the above-mentioned legislation were notified during the financial period. The Company is in negotiation with the Tasmanian Government to determine its responsibility for any environmental liabilities that may arise from the activities of previous owners operations.

5. Dividends

There have been no dividends paid or declared by the Company to members since its establishment.

Directors' Report for the period ended 30 June 2010

6. Events subsequent to reporting date

There has not arisen in the interval between the end of the financial period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial years.

7. Likely developments

Further information about likely developments in the operations of the Company and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Company.

8. Directors' interests

The Directors have no interest in the shares of the Company.

9. Indemnification and insurance of officers

Indemnification

No indemnities have been provided to any current Directors of the Company, or any other officers of the Company.

Insurance premiums

Since the commencement of the Company on 1 December 2009, the Company has paid insurance premiums in respect of Directors' and officers' liability, legal expenses and insurance contracts for current Directors and officers including senior executives of the Company. The insurance premiums relate to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

The insurance policies outlined above do not contain details of the premiums paid in respect of individual officers of the Company.

Directors' Report for the period ended 30 June 2010

10. Auditor's independence declaration

The Auditor's independence declaration forms part of the Directors' report for the financial period ended 30 June 2010.

Mrs S. Merridew
Director

Dated at Launceston this 2nd day of September 2010.

Tasmanian Audit Office

STRIVE | LEAD | EXCEL | TO MAKE A DIFFERENCE

Level 4, Executive Building
15 Murray Street
Hobart Tasmania 7000

Postal Address:
GPO Box 851
Hobart Tasmania 7001

Phone: 03 6226 0100
Fax: 03 6226 0199
Email: admin@audit.tas.gov.au
Web: www.audit.tas.gov.au

10 September 2010

The Board of Directors
Tasmanian Railway Pty Ltd
PO Box 140
NEWSTEAD TAS 7250

Dear Board Members

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with section 307C of the *Corporations Act 2001*, I provide the following declaration of independence.

As the auditor of the financial report of Tasmanian Railway Pty Ltd for the financial period 1 December 2009 to 30 June 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) any applicable code of professional conduct in relation to the audit.

Pursuant to section 298(1)(c) of the *Corporations Act 2001* a copy of this declaration must be included in the Directors' report.

Yours sincerely

H M Blake
AUDITOR-GENERAL

Statement of comprehensive income

For the period 1 December 2009 to 30 June 2010

	Note	2010 $
Continuing operations		
Revenue from freight services		15,843,128
Other income	4	1,013,132
		16,856,260
Salary and wages expense		(9,991,308)
Maintenance and consumables expense		(5,715,938)
Depreciation expense	6	(3,562,392)
Fuel and oil expense		(2,621,510)
Administration expense		(3,752,804)
Other expenses		(1,981,216)
Loss before net finance income		(10,768,908)
Finance income	7	683,425
Finance costs	7	(48,985)
Net finance income	7	634,440
Loss from continuing operations		(10,134,468)
Taxation equivalent expense	8	87,256
Loss for the period after tax		(10,221,724)
Unusual items		
Loss on transfer of assets to DIER for no consideration	6	(1,725,673)
Bargain purchase price in business combination	22	1,852,466
Taxation equivalent benefit on these items		87,256
		214,049
Net loss for period after tax before comprehensive income		(10,007,675)
Other comprehensive loss		–
Total comprehensive loss for the period		(10,007,675)

Statement of financial position

As at 30 June 2010

	Note	2010 $
Assets		
Cash and cash equivalents	9	32,704,529
Trade and other receivables	10	3,624,557
Inventories	11	1,527,059
Total Current Assets		37,856,145
Deferred tax asset	13	–
Property, plant and equipment	14	41,523,823
Total Non-current Assets		41,523,823
Total Assets		79,379,968
Liabilities		
Trade and other payables	15	4,641,555
Deferred income	16	–
Employee benefits	18	2,815,710
Total Current Liabilities		7,457,265
Employee benefits	18	65,378
Total Non-current Liabilities		65,378
Total Liabilities		7,522,643
Net Assets		71,857,325
Equity		
Share capital	19	81,865,000
Accumulated losses		(10,007,675)
Total Equity		71,857,325

Statement of changes in equity

For the period 1 December 2009 to 30 June 2010

	Note	Share Captial $	Accumulated Losses $
At 1 December 2009		**–**	**–**
Shares Issued	19	2	–
Equity contributed	19	81,864,998	–
Comprehensive loss for the year		–	(10,007,675)
At 30 June 2010		**81,865,000**	**(10,007,675)**

Statement of cash flows

For the period 1 December 2009 to 30 June 2010

	Note	2010 $
Cash flows from operating activities		
Receipts from customers		15,480,943
Payments to suppliers and employees		(21,477,517)
Cash generated from operations		(5,996,574)
Interest received		683,425
Interest paid		(48,985)
Taxation equivalent benefit paid		–
Net cash from operating activities	24	(5,362,134)
Cash flows from investing activities		
Consideration of acquisition rail assets	22	(30,449,094)
Purchase of property, plant and equipment		(13,349,243)
Proceeds from sale of plant and equipment		–
Net cash from investing activities		(43,798,337)
Cash flows from financing activities		
Proceeds from shares issued	19	2
Proceeds from equity contributions	19	81,864,998
Net cash provided by financing activities		81,865,000
Net increase/(decrease) in cash and cash equivalents		32,704,529
Cash and cash equivalents at 1 December		–
Cash and cash equivalents at 30 June	9	32,704,529

Index to the notes to the financial statements

Notes to the financial statements

1. Corporate Information

Tasmanian Railway Pty Limited (the Company) was incorporated on 4 November 2009 and is a company domiciled in Australia. The address of the Company's registered office is 35 Hoblers Bridge Road, Newstead, Tasmania 7250.

On 1 December 2009, the Company acquired the assets owned by Pacific National Tasmania, a subsidiary company of Asciano Ltd. In addition, the rail network and related assets owned by the Tasmanian Government were transferred to the Company.

2. Basis of preparation

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs), including Australian Interpretations, adopted by the Australian Accounting Standards Board (AASB), and the *Corporations Act 2001* .

The financial report of the Company complies with the International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial report was authorised for issue by the Directors on 2 September 2010.

(b) Basis of measurement

The financial report is prepared on the historical costs basis.

(c) Functional and presentation currency

The financial report is presented in Australian dollars, which is the Company's functional currency.

(d) Use of estimates and judgements

The preparation of a financial report in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Judgements made by management in the application of Australian Accounting Standards that have significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in note 3 (h) – impairment.

Notes to the financial statements – *continued*

3. Significant accounting policies

(a) Revenues

Provision of services
Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date.

Interest income
Interest income is recognised as it accrues and is measured by applying the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Sale of Non-Current Assets
The net profit or loss on the sale of a non-current asset are included as revenue or an expense respectively. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs).

Government grant
Government grants are assistance by the Tasmanian Government in the form of transfers of resources to the company to assist with the purchase, maintenance and construction of assets for the operation of the Tasmanian rail network.

Where the substantial purpose of a government grant is for asset renewal or upgrade, the Tasmanian Treasurer can formally designate this funding to be classified as equity. Where this occurs, the funding is allocated directly to "Share Capital".

For other government grants, they are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and that the Company will comply with the conditions associated with the grant. Grants that compensate the Company for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Company for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

(b) Income Tax

The company is subject to the National Tax Equivalent Regime under instructions from the Treasurer of the State of Tasmania, which is broadly based on the provisions of the *Income Tax Assessment Act.*

Income tax expense comprises current and deferred tax. Current and deferred income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity or in other comprehensive income.

Current tax
Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Notes to the financial statements – continued

3. Significant accounting policies (continued)

Deferred tax
Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets.

A deferred tax asset is recognised for unused tax losses and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(c) Property, Plant and Equipment

(i) Recognition and measurement
Items of plant and equipment, property and land under rail are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy (h)). Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs.

Where parts of an item of plant and equipment have different useful lives, they are accounted for as separate items of plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property plant and equipment and are recognised net within other income in profit or loss.

(ii) Depreciation
Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for each class of asset, for the current period is as follows:

Class of Asset	Useful Life
Buildings	9 - 11 years
Infrastructure	10 - 30 years
Rolling Stock	3 - 5 years
Plant & Equipment	5 - 10 years
Motor Vehicles	1 - 5 years

The estimated useful life for each class of asset for the current period reflects the state and age of assets acquired. New asset replacement and additions will be depreciated over their full expected useful life.

Notes to the financial statements – *continued*

3. Significant accounting policies (continued)

(d) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(e) Employee Entitlements

(i) Short-term benefits
Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(ii) Long-term benefits
The Company's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on-costs. An employee's long-term leave balances are discounted, only where the impact of this discounting is material. The discount rate is the yield at the reporting date on AA credit-rated or government bonds that have maturity dates approximating the terms of the Company's obligations.

(iii) Defined contribution plans
A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(f) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(g) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Notes to the financial statements – *continued*

3. Significant accounting policies (continued)

(h) Impairment

(i) Financial assets (including receivables)
A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the assets original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets
The carrying amounts of the Company's non-financial assets, other than inventories (see accounting policy (f)) and deferred tax assets (see accounting policy (b)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" – CGU).

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of the assets in the unit (group of units) on a pro-rata basis.

(i) Finance income and finance costs

Finance income comprises interest income on funds invested and is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

(j) Segment reporting

The Company has elected to provide segment reporting in accordance with AASB 8 *Segment Reporting*. The company determines and presents operating segments based on the information that internally is provided to the Chief Executive Officer (CEO) and the Board of Directors.

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments operating results are regularly reviewed by the Company's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment.

Notes to the financial statements – *continued*

3. Significant accounting policies (continued)

(k) Financial instruments

(i) Non-derivative financial assets

The Company initially recognises loans and receivables and deposits on the date that they are originated. The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

(ii) Non-derivative financial liabilities

The Company's financial liabilities are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company has trade and other payables which are the only non-derivative financial liabilities. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest rate method.

Notes to the financial statements – *continued*

3. Significant accounting policies (continued)

(l) Business combinations

The Company has applied the acquisition method for the business combinations disclosed in note 22. For every business combination, the acquisition date is the date on which control is transferred to the Company. Control is the power to govern the financial and operating policies of an entity or group of assets so as to obtain benefits from their activities.

Measuring goodwill

The Company measures goodwill as the fair value of the consideration transferred, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Company to the previous owners, and equity interests issued by the Company.

Transaction costs

Transaction costs that the Company incurs in connection with a business combination, such as legal fees, due diligence fees, and other professional and consulting fees, are expensed as incurred.

(m) New accounting standards and interpretations not adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing this financial report.

AASB 9 *Financial Instrument* includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 will become mandatory for the Company's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. The Company does not expect the Standard to have any impact on the financial statements.

AASB 124 *Related Party Disclosures* (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for the Company's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.

AASB 2009-5 *Further amendments to Australian Accounting Standards arising from the Annual Improvements Process* affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The vvamendments, which become mandatory for the Company's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.

AASB 1053 *Application of Tiers of Australian Accounting Standards* establishes a differential reporting framework, which consists of two tiers (Tier 1 and Tier 2) of reporting requirements for reporting entities preparing general purpose financial reports. For Tier 2 entities, reduced disclosure requirements will exist through the application of AASB 2010-02 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements.* The Standards apply to annual reporting periods beginning on or after 1 July 2013, but may be early adopted. The new Standards are expected to result in reduced financial report disclosures for the Company.

Notes to the financial statements – *continued*

4. Other Income	
	2010 $
Property rental	529,207
Sundry	483,925
Grant income – Tasmanian Government contribution to operating expenditure (i)	–
	1,013,132

(i) All grants received in the period have been formally designated as equity in accordance with the accounting policy in Note 3(a).

5. Auditors' remuneration	
Audit Services	
Auditors of the Company:	
Tasmanian Audit Office	
Audit the financial report	40,000
	40,000

6. Expenses	
Depreciation for the period consists of:	
Building, plant and equipment (including motor vehicles)	3,562,392
Software	–
	3,562,392
Loss on transfer of assets to DIER for no consideration	**1,725,673**

7. Net finance income	
Interest expense	48,985
Finance costs	48,985
Interest income	683,425
Finance income	683,425
Net finance income	**634,440**

Notes to the financial statements – *continued*

8. Taxation equivalent benefit	
	2010 $
Income tax expense attributable to continuing operations	
Current year expense / (benefit)	(2,594,039)
Deferred tax expense:	
Origination and reversal of temporary differences:	
Increase/(Decrease) in deferred tax liability	144,984
Decrease/(Increase) in deferred tax asset	(593,845)
Non-recognition of temporary differences and tax equivalent losses	3,130,156
Net income tax expense attributable to continuing operations	87,256
Income tax expense attributable to unusual items	
Current year tax expense/(benefit)	(87,256)
Deferred tax expense:	
Origination and reversal of temporary differences:	
Increase/(Decrease) in deferred tax liability	–
Decrease/(Increase) in deferred tax asset	–
Net income tax (benefit) attributable to unusual items	(87,256)
Total taxation equivalent expense/benefit	–
Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income rate	
Loss before tax	(10,007,675)
Income tax using the domestic corporation tax rate of 30%	(3,002,303)
Increase in income tax expense due to:	
Non-deductible expenses	501
Decrease in income tax expense due to:	
Sale of property, plant and equipment	(3,061)
Non-assessable bargain purchase price	(125,294)
	(3,130,157)
Non-recognition of temporary differences and tax equivalent losses	3,130,157
Total taxation equivalent expense/benefit	–

Notes to the financial statements – *continued*

9. Cash and cash equivalents	
	2010 $
Bank balances	5,440,687
Call deposits	27,263,242
Petty cash on hand	600
Cash and cash equivalents in the statement of cash flows	**32,704,529**

10. Trade and other receivables	
Current	
Trade receivables	2,862,098
Sundry receivables	245,407
Prepayments	61,073
GST receivable	455,979
	3,624,557

The average credit period on freight services is 25 days. No interest is charged on trade receivables. Trade receivables over 60 days will be provided for based on estimated irrecoverable amounts from the sale of services, determined by reference to past default experience.

Before accepting any new customers, the company conducts credit and reference checks to assess the potential customer's credit quality and defined credit limits, by customer.

11. Inventories	
Consumables stock at cost	1,304,272
Fuel stock at cost	222,787
	1,527,059

The cost of inventory expensed for the period was $3,013,305.

12. Current tax asset or liability

There is no current tax asset or current tax liability for the Company for the current period.

Tasmanian Railway Pty. Limited
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Notes to the financial statements – *continued*

13. Deferred tax assets and liabilities	
	2010 $
Recognised deferred tax assets and liabilities	
Deferred tax assets and liabilities are attributable to the following:	
Deferred tax assets	
Employee benefits	948,059
Trade and other payables	230,029
Property, plant and equipment	41,783
Carried forward tax losses	2,681,295
Tax assets	3,901,166
De-recognised due to not being probable of recovery	(3,630,887)
Set-off of tax	(270,279)
Net deferred tax asset	–
Deferred tax liabilities	
Inventory	66,836
Trade and other receivables	78,149
Bargain purchase price	125,294
Tax liabilities	270,279
Set-off of tax	(270,279)
	–

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilise the benefits therefrom. The taxable value and book value treatment of infrastructure assets are the same.

Notes to the financial statements – *continued*

14. Property, Plant and Equipment	2010 $
Leasehold Improvements (Buildings) – At Cost	3,609,444
Accumulated depreciation	(376,118)
	3,233,326
Infrastructure – At Cost	9,899,805
Accumulated depreciation	(476,716)
	9,423,089
Plant and Equipment – At Cost	1,391,218
Accumulated depreciation	(132,644)
	1,258,574
Rollingstock – At Cost	15,606,000
Accumulated depreciation	(2,291,588)
	13,314,412
Motor Vehicles – At Cost	754,050
Accumulated depreciation	(285,325)
	468,725
Capital Projects	13,825,697
	13,825,697
Total property, plant and equipment net book value	**41,523,823**

On 1 December 2009, the Company acquired the Tasmanian rail assets previously owned by Pacific National (Tasmania) Pty Ltd and assumed responsibility for the rail network and related assets owned by the Tasmanian Government.

Tasmanian Railway Pty. Limited
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Notes to the financial statements – *continued*

14. Property, Plant and Equipment (continued)	2010 $
Reconciliations	
Reconciliations of the carrying amounts for each class of plant and equipment are set out below:	
Land	
Carrying amount at the beginning of the period	–
Additions (i)	1,725,673
Disposals	(1,725,673)
Carrying amount at the end of the period	–
Leasehold Improvements (Buildings) – At Cost	
Carrying amount at the beginning of the period	–
Additions (i)	3,609,444
Depreciation	(376,118)
Carrying amount at the end of the period	3,233,326
Infrastructure	
Carrying amount at the beginning of the period	–
Additions (i)	9,899,805
Depreciation	(476,716)
Carrying amount at the end of the period	9,423,089
Plant and Equipment	
Carrying amount at the beginning of the period	–
Additions (i)	1,391,218
Depreciation	(132,644)
Carrying amount at the end of the period	1,258,574
Rollingstock	
Carrying amount at the beginning of the period	–
Additions (i)	15,606,000
Depreciation	(2,291,588)
Carrying amount at the end of the period	13,314,412

Notes to the financial statements – *continued*

14. Property Plant and Equipment (continued)	
	2010 ***$***
Reconciliations *(continued)*	
Motor Vehicles	
Carrying amount at the beginning of the period	–
Additions (i)	754,050
Depreciation	(285,325)
Carrying amount at the end of the period	468,725
Capital Projects in Progress	
Carrying amount at the beginning of the period	–
Additions	13,825,697
Transfers out	–
Carrying amount at the end of the period	13,825,697
Total Plant and Equipment net book value	**41,523,823**

(i) The fair value of the plant and equipment assets acquired have been determined by independent valuation by Ernst & Young using the Depreciated Replacement Cost approach as the primary valuation methodology. The valuation methodology considered losses in value attributable to economic, physical and functional obsolescence. The fair value of buildings was determined by independent valuation by Brothers & Newton - Opteon. Ernst & Young then adjusted the building values to a Depreciated Replacement Cost value for the purposes of the acquisition ccounting.

15. Trade and other payables	
Trade payables	2,132,295
Other trade payables	502,868
Accrued expenses	1,453,605
Provision for incidents	552,787
	4,641,555

The average credit period on purchase of goods and services is 10 days. The company has financial risk management policies in place to ensure all payables are paid within the credit timeframe.

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Notes to the financial statements – *continued*

16. Deferred income	
	2010 ***$***
Current liabilities	
State grant funding (i)	**–**

(i) All grants received in the period have been formally designated as equity in accordance with the accounting policy in Note 3(a).

17. Loans and borrowings	
The Company has no loans and borrowings at period end.	**–**

18. Employee benefits	
Current	
Liability for annual leave	1,319,742
Liability for long-service leave	1,495,968
	2,815,710
Non-Current	
Liability for annual leave	–
Liability for long-service leave	65,378
	65,378

19. Share capital	
On issue at 1 December 2009 – fully paid ordinary shares	–
Shares issued at commencement of Company (i)	2
Equity contributed during the year (ii)	81,864,998
On issue at 30 June 2010 – fully paid ordinary shares	**81,865,000**

(i) On 1 December 2009, the authorised capital consisting of 2 ordinary shares fully paid were issued to the Tasmanian Treasurer and the Tasmanian Minister of Infrastructure. The Tasmanian Treasury is entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

(ii) This is grant funding provided to the Company which has been formally designated as equity in accordance with the accounting policy in Note 3(a) and comprises of:

1. Tasmanian Government funds for business purchase of $30,449,094
2. Tasmanian Government funds for capital works programmes and operational expenditure of $21,761,904
3. Commonwealth Government funds for capital works programmes of $29,654,000

Notes to the financial statements – continued

20. Operating segments

The Company has two reportable segments, as described below, which are the Company's strategic business units. The strategic business units offer different services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Company's Chief Executive Officer (CEO) reviews internal management reports on at least a monthly basis. The following summary describes the operations in each of the Company's reportable segments:

Above Rail – This segment relates to the provision of rail freight services in Tasmania.

Below Rail – This segment relates to the management and operation of the rail network and related infrastructure.

Information regarding the results of each reportable segment is included below:

Segment	***Above Rail 2010 $***	***Below Rail 2010 $***	***Total 2010 $***
External revenues	16,314,967	541,293	16,856,260
Interest income	410,055	273,370	683,425
Interest expense	(29,391)	(19,594)	(48,985)
Depreciation and amortisation	(2,739,987)	(822,405)	(3,562,392)
Reportable segment profit / (loss) before income tax	(937,386)	(9,070,289)	(10,007,675)
Reportable segment assets	23,400,668	23,274,771	46,675,439
Add: cash and cash equivalents not allocatable to segments			32,704,529
Total assets			**79,379,968**
Capital expenditure	1,969,207	11,856,490	**13,825,697**

21. Dividends

	2010 $
No dividends have been proposed or paid by the Company during the year.	–

Notes to the financial statements – continued

22. Business Combination

On 1 December 2009, the Company acquired the Tasmanian rail assets previously owned by Pacific National (Tasmania) Pty Ltd and assumed responsibility for the rail network and related assets owned by the Tasmanian Government.

The acquisition of both elements provides the opportunity for the Company to progress as an integrated rail freight business under the Tasmanian Government's control.

The following summarises the major classes of consideration transferred, and the recognised amount of assets acquired and liabilities assumed at the acquisition date:

	2010 $
Consideration transferred:	
Cash	30,449,094
Equity instruments	–
	30,449,094
Identifiable assets acquired and liabilities assumed:	
Property, plant and equipment	34,272,792
Prepayments	115,519
Employee benefits	(2,086,751)
Total net identifiable assets	**32,301,560**
Bargain purchase arising in relation to the business combination	**1,852,466**

The fair value of the plant and equipment assets acquired have been determined by independent valuation by Ernst & Young using the Depreciated Replacement Cost approach as the primary valuation methodology. The valuation methodology considered losses in value attributable to economic, physical and functional obsolescence. The fair value of buildings was determined by independent valuation by Brothers & Newton - Opteon. Ernst & Young then adjusted the building values to a Depreciated Replacement Cost value for the purposes of the acquisition accounting.

Notes to the financial statements – *continued*

23. Commitment for expenditure	
	2010 ***$***
Capital expenditure commitments	
Not longer than one year:	
Above Rail	954,829
Below Rail	4,734,678
	5,689,507
Operating Leases	
Non-cancellable operating lease rentals are payable as follows:	
Less than one year	213,721
Between one and five years	275,789
	489,510
The Company is negotiating a long term lease with the Tasmanian Government for the land upon which the rail network operates.	

Tasmanian Railway Pty. Limited
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Notes to the financial statements – continued

24. Reconciliation of cash flows from operating activities	
	2010 ***$***
Cash flows from operating activities	
Loss for the period	(10,007,675)
Adjustments for:	
Depreciation	3,562,392
Land transferred to Crown	1,725,673
Bargain purchase option	(1,852,466)
Profit on Sale of property, plant and equipment	–
Operating profit before changes in working capital and provisions	(6,572,076)
– Increase/(Decrease) in payables	4,088,769
– Increase/(Decrease) in provision for incidents	552,787
– Increase/(Decrease) in employee benefits	794,335
– Increase/(Decrease) in current tax asset	–
– Increase/(Decrease) in provision for impairment losses	–
– Increase/(Decrease) in prepayments	54,446
– (Increase)/Decrease in net deferred tax asset	–
– (Increase)/Decrease in receivables	(3,563,484)
– (Increase)/Decrease in inventories	(716,911)
Net Cash flows from operating activities	**(5,362,134)**

Notes to the financial statements – *continued*

25. Financial instruments

Overview

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management polices and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The carrying amount of the Company's financial assets represents the maximum credit exposure. The Company's maximum exposure at the reporting date was:

	2010 *$*
Cash and cash equivalents	32,704,529
Trade and other receivables	3,624,557
	36,329,086

The geographic exposure to credit risk is limited to Australia. More than 85 percent of the Company's customers have been transacting with the Company or previous owners of the rail network, for over four years, and losses have occurred infrequently. Customers that are "high risk" are placed on a restricted customer list, and future sales are made on a prepayment basis with approval of the Chief Executive Officer.

	2010 *$*
The ageing of trade receivables at the reporting date was:	
Not past due	2,861,642
Past due 0-30 days	225
Past due 31-120 days	231
Past due 120 days-year	–
Total	**2,862,098**

There is no allowance for impairment in respect of trade receivables during or at the end of the period.

Tasmanian Railway Pty. Limited
30 June 2010 Annual Financial Report

Notes to the financial statements – *continued*

25. Financial instruments (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.
The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The following are the carrying amounts and contractual cash flows of financial liabilities:

	2010 *$*
Non-derivative financial liabilities	
Trade and other payables – payable in 6 months or less	4,641,555
	4,641,555

Currency risk

The Company has no significant exposure to foreign currency risk.

Interest rate risk

The Company has no interest-bearing financial liabilities at the reporting date. The Company holds cash and cash equivalents in a series of at-call accounts with variable interest rates.

A change of 100 basis points in interest rates would have increased or decreased the Company's profit and loss by $327,039. There is no impact on the Company's equity.

Fair values versus carrying amounts

The carrying values and fair values are the same for all of the Company's financial assets and financial liabilities.

26. Related Party Transactions

	2010 $
Key management personnel compensation	
The key management personnel compensation is as follows:	
Short-term benefits	557,145
Other long-term benefits	–
Post-employment benefits	63,424
Termination benefits	–
	620,569

Ultimate owner

The ultimate owner of the Company is The Crown in Tasmania.

27. Contingencies

The Company is in negotiation with the Tasmanian Government to determine its responsibility for any environmental liabilities that may arise from the activities of previous owners operations.

28. Subsequent events

There have been no events subsequent to balance date which would have a material effect on the Company's financial report at 30 June 2010.

Director's Declaration

For the period ended 30 June 2010

1 In the opinion of the Directors of Tasmanian Railway Pty Limited ('the Company'):

(a) the financial statements and notes, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's financial position as at 30 June 2010 and of its performance, for the financial period ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a);

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable in line with government funding;

Signed in accordance with a resolution of the Directors:

Dated at Launceston this 2nd day of...September...........2010.

Sarah Merridew

Mrs S. Merridew
Director

INDEPENDENT AUDIT REPORT

To the Members of Tasmanian Railway Pty Ltd

Financial Report for the Period Ended 30 June 2010

Report on the Financial Report

I have audited the accompanying financial report of Tasmanian Railway Pty Ltd (the Company), which comprises the statement of financial position as at 30 June 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period 1 December 2009 to 30 June 2010, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

The Responsibility of the Directors for the Financial Report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based upon my audit. My audit was conducted in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial report is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

In conducting my audit, I have complied with the independence requirements of the *Corporations Act 2001*. The *Audit Act 2008* further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of State Entities but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Tasmanian Audit Office are not compromised in their role by the possibility of losing clients or income.

I confirm that the independence declaration required by the *Corporations* Act 2001, was provided to the directors on the same date as this audit opinion and is included in the Directors' report.

Auditor's Opinion

In my opinion:

(a) the financial report of Tasmanian Railway Pty Ltd is in accordance with the *Corporations Act 2001*, including:

 (i) giving a true and fair view of the financial position of Tasmanian Railway Pty Ltd as at 30 June 2010 and its financial performance for the period 1 December 2009 to 30 June 2010, and

 (ii) complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a).

TASMANIAN AUDIT OFFICE

H M Blake
AUDITOR-GENERAL

HOBART
10 September 2010

To provide independent assurance to the Parliament and Community on the performance and accountability of the Tasmanian Public sector.
• Professionalism • Respect • Camaraderie • Continuous Improvement • Customer Focus •
Making a Difference

Contact Us:

TasRail
35 Hoblers Bridge Road
Newstead Tasmania 7250

Telephone: Corporate Relations (03) 6337 2232
www.tasrail.com.au