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ANNUAL REPORT

19



Tasmanian Railway Pty Limited

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To be a world class, vertically integrated, short haul freight railway.

Achieving this ambitious goal requires that we challenge traditional thinking, relentlessly pursue value adding activities with our customers and within the context of our business plan, while simultaneously improving our safety, service quality, reliability and organisational development.





Who we are

Tasmanian Railway Pty Limited (TasRail) is a State-owned Company established by an *Act of the Tasmanian Parliament*.

The principal objectives of the business are set out in the *Rail Company Act 2009* and require the Company to:

- Operate a rail business in Tasmania effectively and efficiently;
- Operate its activities in accordance with sound commercial practice; and
- Maximise sustainable returns to its Shareholder Members.

At the time of its establishment on 1 December 2009, TasRail inherited a business characterised by many decades of underinvestment. Under previous owners, the business had been run down to the point where it was no longer able to provide reliable and competitive services. As a consequence, customers had lost confidence in rail and considerable freight volumes shifted to road transport.

Funding commitments from the Australian and Tasmanian Governments have enabled TasRail to successfully implement the major elements of its Rail Recovery Plan. This highly ambitious capital program, the likes of which the transport sector in Tasmania has not seen for many decades, is now well progressed and paying dividends.

However, the scale of the task to rebuild, revitalise and grow the rail freight business in Tasmania should not be underestimated, particularly in the short to medium term while the business awaits delivery of its new locomotive and wagon fleet and continues to prioritise and address the inherited backlog of track and infrastructure maintenance with available funds.

In just two and a half years, TasRail has already achieved substantial improvements to overall business performance, particularly in the safety and reliability of its operations. Importantly, it has been able to accomplish all of this, whilst at the same time it has developed the new organisation; built relationships with its customers and other stakeholders; maintained existing operations and commenced new services and facilities; explored new business opportunities; developed and implemented an ambitious capital program and progressively restored both the credibility and capability of the freight rail business in Tasmania.

The TasRail story is only just beginning.



What we do

TasRail is a vertically integrated, short haul, freight rail business that was created by combining the Below Rail assets (that the State had assumed responsibility for in 2007) with all of the Above Rail and Business Assets purchased from Pacific National in late 2009, including the Emu Bay Railway. Administration of rail funding from the Australian Government transferred from the Rail Management Branch within the Department of Infrastructure, Energy and Resources to TasRail late in 2009. This completed the amalgamation of the whole operating rail network within Tasmania, along with responsibility for future upgrading of the Below and Above Rail elements of the business.

Below Rail operations are responsible to upgrade, maintain and operate the railway network and supporting infrastructure. Similar to the State's road network, the rail network is a critical piece of infrastructure that generates only limited revenue and requires annual government funding to ensure that it is maintained to an appropriate safety standard.

The Above Rail business operates terminals, bulk handling and shiploading facilities and train services in response to customer requirements. It is also responsible to upgrade, maintain and operate the rollingstock fleet and to manage safe and authorised access to the network.

As an integrated business, TasRail is committed to delivering transport and logistics solutions that are safe, reliable and sustainable.

ABOVE
BELOW

- 1 shiploader
- 374 wagons
- 36 locomotives
- 6 freight terminals
- 2 bulk handling facilities
- 115 train services every week
- 632 route kilometres of operational track
- 211 route kilometres of non-operational track
- 1.25 million sleepers
- ~500 level crossings
- 355 bridges
- 3 tunnels





Creating jobs, showcasing local skills

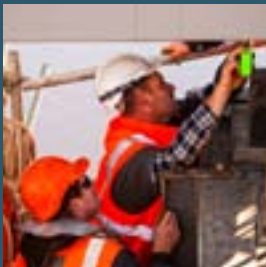
The funds being invested in the upgrade of the Tasmanian Rail Network, plus the revenue generated by TasRail's rail freight operations and the salaries it pays to its workforce are providing a welcome economic stimulus for the State.

Since it was established on 1 December 2009 TasRail has spent \$97.7 million purchasing goods and services from more than 900 Tasmanian registered companies (to 30 June 2012). The socio-economic benefits that flow from this activity are helping to support regional economies and to create many new direct and indirect employment opportunities.

To 30 June 2012, some \$54.2 million of project works has been awarded to TasRail's preferred Contactor Panel. The Panel was appointed through an open market tender process and comprises VEC Civil Engineering, John Holland, Downer-EDI, Abi Group (partnering with Gradco) for rail specific work; and Digga Excavations Pty Limited and Sutcliffes Earthmoving Pty Limited for corridor maintenance and emergency works.

Each of the six companies appointed to the Panel has successfully demonstrated they have the prerequisite skills and competency to complete works on the rail network to the required Standard, in effect being awarded 'Contractor Preferred' status.

The Tasmanian companies represented on TasRail's Contactor Panel have benefited from works to the value of \$39.3 million, representing 73 per cent of the total contractor spend to 30 June 2012.



Ulverstone based VEC Civil Engineering Pty Limited estimate that the contracts it has been awarded by TasRail to replace and/or renew four bridges on the Western Line have created 35 new direct jobs and employment for up to an additional 20 contractors. The North West Bridge project is funded by the Australian Government's Nation Building Program.

260

Total Direct Employees



900+

Tasmanian Suppliers



\$51million

Capital Investment



FAST FACTS



Where we operate

The Tasmanian Rail Network dates from the late 1800s and its alignment has changed little since. The network is a single rail line, narrow gauge (1,067 millimetre) transport system and consists of a total of 632 route kilometres of operational lines and a further 211 kilometres of non-operational lines.

The operational network extends from Hobart to Western Junction and to the Port of Bell Bay in the north east and Burnie in the north west. Connections are also provided to Fingal in the east and Boyer in the Derwent Valley. The Melba Line (formerly named the Emu Bay Line) connects the West Coast to Burnie.



South	Approximately 199 kilometres running from the Hobart Rail Yards to Western Junction.
Derwent Valley	Approximately 71 kilometres running from the Bridgewater Junction to the Florentine Rail Yard west of Maydena. The section of line between Boyer and Maydena is currently non-operational.
Western	Approximately 259 kilometres commencing at the Inveresk Rail Yard and running to Wiltshire via East Tamar and Western Junction. The section of the line that runs between Burnie and Wiltshire is currently non operational.
Melba	Approximately 130 kilometres running from the Port of Burnie to Melba Flats.
Bell Bay	Approximately 57 kilometres running from the East Tamar Junction to the Port of Bell Bay.
Fingal	Approximately 55 kilometres running from Conara Junction to Fingal.
North East	Approximately 73 kilometres running from Coldwater Creek Junction to Tonganah. This Line is currently non-operational.

 Rail Loading Points
  Ports
  Non Operational Line

Our milestones



July 2011

Severe storms create hazardous conditions across parts of the railway network. Heavy snow and tree limbs on the Melba Line keep Infrastructure work crews busy, while a boom gate at Brighton is sheared from its mooring.



New TasRail signage is installed at all Active Level Crossings across the State. The new signs make it easier for Emergency Services and members of the general public to report signal faults by prominently displaying the level crossing identification number (Kilometre Peg reference) and telephone number.

August 2011

Agility Shipping withdraws its containerised shipping service between Melbourne and Bell Bay. The announcement is made just days before Agility planned to execute a Commercial Agreement with TasRail for the operation of full rail line haul services between Bell Bay and Hobart. In the aftermath, TasRail proactively works with the Bell Bay Industry Group to investigate potential for a Bell Bay to Burnie rail service.



TasRail is named a Finalist in the Employer of the Year category at the 2011 Skills Tasmania Annual Training Awards.



Heavy rainfall causes temporary line closures on the Southern and Fingal rail lines. It is the fourth time that a significant flood event occurs in the 2011 calendar year.



TasRail begins National Rail Safety Week 2011 with the launch of its social media tools and a new level crossing awareness campaign.

September 2011

TasRail nominates its new fleet of hi-rail vehicles for a WorkSafe Tasmania Award (Best Solution to an identified Workplace Health and Safety Issue). The entry is recognised with a Highly Commended Award.



Works to track infrastructure are completed at the new Brighton Transport Hub, including tamping, regulating and lining tracks and turnouts.



TasRail awards the contract for 100,000 concrete sleepers.



The TasRail Board approves the purchase of four 2150 Class Locomotives ex Queensland Rail to increase haulage capacity and to support demand for new business opportunities.

October 2011

Work commences on the replacement of numerous, high priority road crossings on the TasRail Network.



DuPont Safety Awareness training is delivered to a second group of TasRail's Frontline Leaders.



The closure of Intec's mining operations results in the loss of 100,000 tonnes through TasRail's Bulk Storage and Shiploading facility at Burnie.

November 2011

TasRail conducts preliminary investigations into loading and haulage configurations to support a planned trial of logs returning to rail transport.



TasRail successfully implements its in-house payroll system and transfers this function from an external provider.



TasRail Chairman Bob Annells delivers a presentation about the future of TasRail to Business Leaders' Luncheons in the North and South of the State. More than 110 guests attend the event at Launceston and 130 guests at Hobart, including His Excellency the Governor of Tasmania.



December 2011

TasRail announces the signing of a major contract with Downer EDI Rail Pty Ltd in partnership with Progress Rail for the design, manufacture, delivery and commissioning of a new fleet of 17 PR22L locomotives. The total value of the project is \$68 million.

January 2012

TasRail recruits a Customer Account Manager to further enhance the organisation's Contract Management and Business development capability.

●●●

Portable Thermit Weld Tents are introduced for field work as a safety measure to prevent the risk of sparks causing vegetation fires in the railway corridor.

February 2012

Production commences for the first of TasRail's new concrete sleepers at the Busck production facility in New Zealand.

March 2012

A significant milestone in the resurgence of rail, with TasRail partnering with Forestry Tasmania to trial the transport of logs by rail. It has been a decade since logs were last transported by train.

●●●

TasRail re-opens a rail siding at the Toll Launceston Depot and commences wagon loading at that site for the first time in five years. The re-opening of the rail siding enables the introduction of new and additional intermodal freight flows between Launceston and Burnie and Launceston and Hobart.

●●●

Construction of the first of four North West Rail Bridges to be replaced or renewed commences with VEC Civil Engineering Pty Limited mobilising its work crews at the Blythe River Rail Bridge.

●●●

TasRail attends the national launch of the trackSAFE Foundation. The not-for-profit organisation enables an all of industry approach to improve community rail safety, particularly level crossing safety and a reduction in the number of trespass and rail suicide events. It will also provide additional support for rail industry employees impacted by these traumatic events.

April 2012

TasRail relocates its Head Office to the former Telstra Call Centre at the Launceston Techno Park. The move enables TasRail to centralise a majority of its project teams, administration and service support staff.

●●●

TasRail secures approximately 20 Twenty Foot Equivalent Units (TEU) of additional freight between Burnie and Hobart via Cadbury's Sugar Tanks.

May 2012

TasRail's Members' Statement of Expectations is tabled in both Houses of the Tasmanian Parliament.

June 2012

The Wagon Fleet Tender closes on 8 June attracting interest from eight suppliers.

●●●

Bass Metals cease operations, resulting in the loss of 80,000 tonnes of bulk handling and shiploading volumes.

●●●

A major upgrade of the rail/road crossing at Granton is completed, at a cost of \$280k.

●●●

TasRail ends the 2011/12 Financial Year having operated for 240 consecutive days without a mainline train derailment. A significant milestone.

Our ref: TR-011012

Hon. David O'Byrne MP
Minister for Infrastructure and
Member, Tasmanian Railway Pty Limited
Executive Building
15 Murray Street
HOBART TAS 7000

Hon. Lara Giddings MP
Premier, Treasurer and
Member, Tasmanian Railway Pty Limited
Executive Building
15 Murray Street
HOBART TAS 7000

Dear Ministers

ANNUAL REPORT 2011-2012

I write to you in your capacity as a Member of Tasmanian Railway Pty Limited.

In accordance with Section 22 (1) (b) of the *Rail Company Act 2009*, we hereby submit for your information and presentation to Parliament, the report of Tasmanian Railway Pty Limited covering the period 1 July 2011 to 30 June 2012.

Signed in accordance with a resolution of Directors.

Yours sincerely,



Bob Annells
Chairman

24 October 2012



Report from the Chairman

Robert Annells



As hopefully is evident from reading this 2011-2012 Annual Report, all of the hard work of the last two years to establish the appropriate corporate governance, procurement processes, technical and engineering standards and expertise is now bearing fruit, and TasRail is now in a position where it can start to make its primary focus the growth and effectiveness of its commercial operations.

From the onset, the Board made a very deliberate decision not to be rushed into making substantial forward commitments until the organisation had achieved considerable advances in its capability to operate efficiently and had secured the right level of skills required to implement its ambitious capital program, both in-house and through the likes of its accredited Contractor Panel.

Through the development of category leading Procurement Standards, the business has worked hard to ensure that it manages the roll out of its very considerable capital program in a responsible and efficient manner. As far as possible, it utilises local capacity and tries at all times to balance the desire to utilise Tasmanian companies, goods and services consistent with achieving prudent commercial outcomes.

Major contracts awarded during 2011-2012 included for the supply and delivery of 17 new locomotives and the replacement of two major North West Bridges. Additionally, TasRail placed an order for 100,000 concrete sleepers following an exhaustive search for the right quality and technical specification; and it secured the first batch of 400 tonnes out of an anticipated 20,000 tonnes of heavier gauge rail, following an acceptable commercial arrangement being agreed with the Australian Rail Track Corporation.

This has therefore been the last year where the Board expects its primary focus to be on the mechanics of delivering the remaining aspects of the Rail Recovery Plan. Whilst this will remain an important focus, particularly as TasRail seeks to replace its aging wagon fleet and further progress the track upgrade, the business has now reached a watershed, where it can begin to shift its focus on growing the business.

It is important to recognise that all of this has only been possible because of the substantial funding committed by the Tasmanian and Australian Governments. The capital committed by the State has enabled the replacement of life expired Above Rail assets, and access to Nation Building funds will continue to deliver a major improvement in both network condition and modal shift from road to rail.

It is therefore rewarding to see a number of new commercial opportunities on the horizon and TasRail is working hard to secure these for the future. In doing so however, we need to be mindful that TasRail has only limited resources and there are challenging logistic and infrastructure issues to be confronted. We also need to be cognisant that while we seek to gain new business, we cannot compromise service delivery and quality to existing customers, who have been most patient over many years.

As at the end of this financial year, TasRail's plans for the Brighton Hub remain on track. We are working to achieve the required Rail Safety Accreditation to facilitate the start-up of operations and to complete the fit-out of the workshop, administration and other necessary facilities. However it needs to be clearly understood that commencement of operations at Brighton Hub will be in two distinct parts. The first will utilise the hardstand to create a classic terminal operation whereby containers arrive directly to the hardstand either by train or truck for loading and unloading from/to trains. The second will seek to establish an adjacent warehouse facility designed to complement enhanced rail activity, but wherever commercially possible, it must also recognise that the Brighton Hub has been designed and constructed as both a road/road as well as a road/rail transfer facility.

At the time of writing this report negotiations are well advanced with TasRail's most significant customer, designed to achieve the relocation of their main warehouse facilities in Southern Tasmania to the Hub. These negotiations are however complex, given the myriad of issues to be dealt with, including the pre-condition of entering into a lease and a commitment from the Lessee for a major investment at that site.

TasRail believes that the timing of its transition to full operations at the Brighton Hub , and the cessation of operations at its Evans Street terminal, remain broadly on schedule.

TasRail's relationship with the Department of Infrastructure, Energy and Resources and through it, with Infrastructure Australia and the Federal Department of Infrastructure and Transport continues to be extremely positive and co-operative. TasRail's request to Infrastructure Australia for significant capital funds beyond 2014 seeks to enable the continuation of the very good rebuilding work started by the Rail Recovery Plan, primarily through completion of concrete sleeper installation across the north-south corridor. This is likely to take a number of years to achieve but would go a considerable way towards future-proofing the business.



Picture above: The TasRail Board of Directors from left. Roger Gill, David George, Sarah Merridew, Bob Neil and Bob Annells (Chairman).

In closing I must acknowledge the performance of the Chief Executive Damien White and his staff over the past 12 months. In particular, the consistently high standard of response by staff to emergency issues such as the floods and wild weather that affected rail operations on a number of occasions during the year. From my position as Chairman, relationships between the Board and Management are very effective and it is satisfying to see the organisation morphing into an extremely efficient and tight knit unit.

I must also thank and commend my fellow Directors for their commitment and hard work over the past year. The amount of time that they have committed to both Board and Committee work has been extensive and the expertise they bring to the organisation is substantial and of great value.

Finally, to Minister David O'Byrne and his staff I would like to express my sincere appreciation for their assistance and support through what has been both a challenging and immensely rewarding year.

Bob Annells
Chairman





Report from the CEO

Damien White



The past financial year for TasRail has been one best described as a year whereby we largely completed the stabilisation of the network and operations after years of decline, and where our management processes, our commercial relationships, and our approach to new business opportunities matured to the extent that we are now undertaking those activities with a new level of confidence. And despite challenging economic conditions, it has been pleasing to see a continuing appetite for the use of rail, evident by the response from existing customers and industry in general.

Our capital projects and procurement processes gathered full steam throughout the year with the following projects substantially progressed:

The contract for the replacement of the locomotive fleet was awarded to Downer EDI Rail Pty Ltd in partnership with Progress Rail after an exhaustive, international engagement with suppliers;

The tender process commenced for the wagon fleet replacement project with a local and international search for suitable supply arrangements;

The tender process commenced for a replacement, electronic data and GPS-based Train Control System;

The contract for the supply of 100,000 concrete sleepers was awarded;

Contracts were awarded for the replacement and refurbishing of four major bridge structures on the North West Coast;

The tender process was undertaken for concrete sleeper insertion and associated track formation rehabilitation.

In total, TasRail committed to more than \$50 million of capital works throughout the year, consisting of nearly \$29 million of Australian Government funding for track and associated infrastructure, and more than \$21 million for operating equipment projects funded by the Tasmanian Government. Considering that many of these projects will ultimately be implemented in parallel, a significant challenge for us is to manage the associated and

considerable change management requirements to ensure that they deliver the expected safety, financial, and service quality benefits. Just like any other organisation, our future success will be based on how well we engage our people throughout the change process.

Unlike when TasRail was established, we now have a growing confidence in our ability to understand and control track infrastructure condition, in order to prevent major disruptions such as mainline derailments. Notwithstanding the recent investment of significant funds into track structures, there still remains much work to do in order for the infrastructure to be able to support anticipated business requirements. Whilst safety and reliability of the network are primary concerns, so too is the ability to efficiently maintain the network into the future. Our ability to progress from what has been largely a reactive maintenance regime, to a more planned maintenance environment, is a fundamental part of our strategy moving forward. This will enable us to achieve a track structure that is not only safe, but is also able to be maintained at a sustainable cost.

On reflection, the business environment for TasRail during 2011-2012 was very mixed. We started the financial year full of expectation. We had everything in place to re-commence scheduled rail services between Bell Bay and Hobart, only to see that new development cancelled at the eleventh-hour due to a cessation of shipping services into Bell Bay. Conversely, the re-commencement of container services between Launceston and Burnie, and the trialling of log traffic, continues to give us real confidence that a reliable and responsive rail service is something that Tasmanian industries really do value. Notwithstanding the carbon related tax impost on rail services to take effect from 1 July 2012, we are confident that the inherent fuel efficiency and environmental benefits of rail, coupled with the strategic investments in new state-of-the-art operating equipment and systems will give Tasmanian industries the efficient freight rail network it deserves.

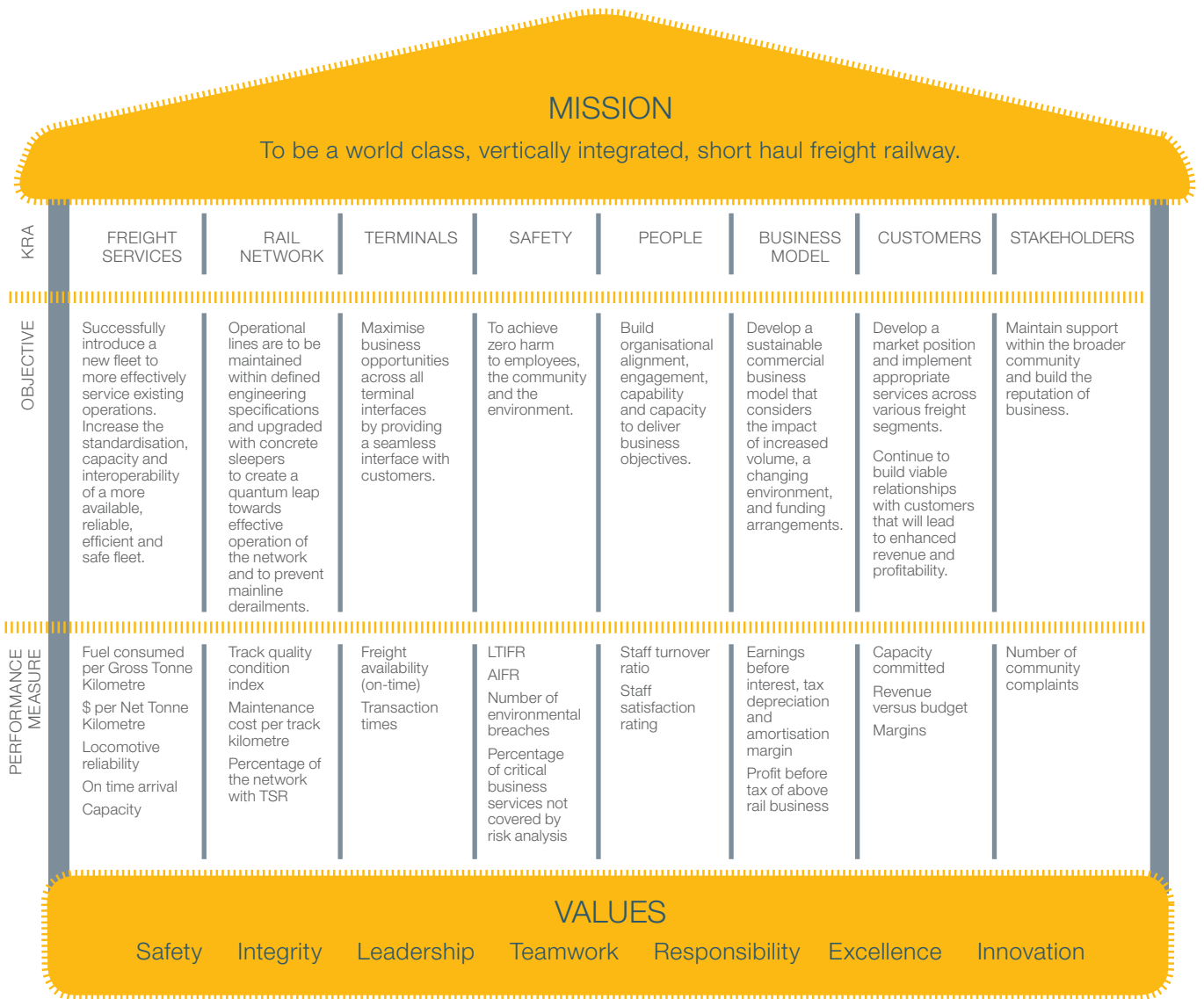
Despite the significant funds currently being expended on our track infrastructure, further funds are ultimately required to complete the rebuilding of Tasmania's Rail Network. TasRail's current funding resources from the Australian Government are now fully committed to June 2014, when the funding arrangement ceases. Consequently, we are now well down the path of a detailed funding submission to complete the job of rebuilding our infrastructure network. Fundamental to this submission is the Tasmanian Government's vision for the role of rail in a truly integrated network of ports, roads and rail that will provide a vibrant and responsive freight network to better support Tasmanian industry.

In summary, another year of solid progress in the redevelopment of rail as a leading provider of freight services for the State of Tasmania. We have arrested the decline in network condition and service quality and are now impatient to get on with the implementation of some exciting investment projects that really will transform freight logistics within the State. With a number of very real business development projects on the horizon, we are at a point of a renewed renaissance for rail in Tasmania.



Damien White
Chief Executive Officer



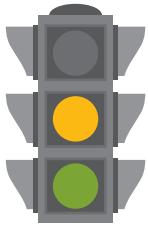


TasRail’s Corporate Plan is based on a five year strategy that builds on the very good progress to date of the Rail Recovery Plan and seeks to transform the Above Rail business towards a more sustainable future.

It should be noted that the Below Rail operations will always be expected to require an Annual Operating Grant from the Tasmanian Government for maintenance of the extensive railway network and associated infrastructure.

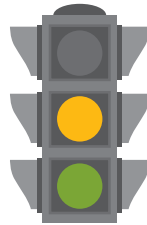
Underpinning TasRail's business strategy are eight Key Result Areas (KRAs). TasRail has adopted a simple traffic light approach to report performance against the initiatives to be implemented for each KRA.

KRA 1: FREIGHT SERVICES



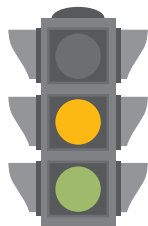
- Engage train drivers and maintainers in planning the transition and implementation of new rollingstock.
- Retain, attract and skill sufficient Train Drivers to meet business needs.
- Develop and implement a contemporary Asset Management Plan for rollingstock.
- Procure a modern Train Control System.

KRA 2: RAIL NETWORK



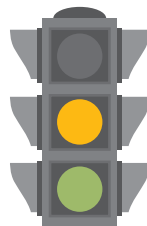
- Continue to implement asset rectification program.
- Develop and implement a contemporary Asset Management Plan for Network Infrastructure.
- Upskill track maintenance capability.
- Develop future track specifications to suit customer needs.

KRA 3: TERMINALS



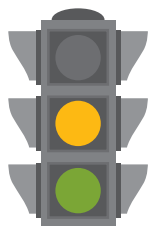
- Develop terminal management capability
- Maximise opportunities from the Brighton Hub development.
- Interact/integrate with other terminals including Burnie and George Town.
- Work with stakeholders to develop an exit strategy for the Hobart Rail Yards.

KRA 4: SAFETY



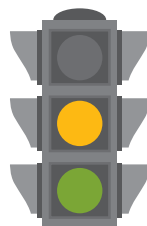
- Promote a 'work safe' culture and implement a behavioural-based safety program.
- Manage all hazards based on risk principles.
- Implement an internal audit program.
- Implement a safety management program for contractors and third parties.

KRA 5: PEOPLE



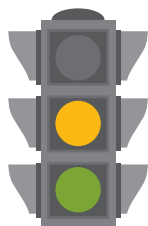
- Foster a 'can do' culture.
- Identify and address workforce skills gap.
- Develop and implement a workforce planning strategy.
- Develop project management capability.

KRA 6: BUSINESS MODEL



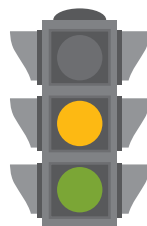
- Define current service offering and consider opportunities to enhance customer value.
- Maintain effective cost control.
- Implement sound capital investment and maintenance program.
- Evaluate growth opportunities.

KRA 7: CUSTOMERS



- Foster a culture of customer service and quality.
- Develop customer relationship/account management capability.
- Develop a marketing program to increase share of contestable freight.
- Respond to new business opportunities.

KRA 8: STAKEHOLDERS



- Continue to engage with key stakeholders and leverage relationships.
- Develop communications to build awareness of TasRail.
- Develop communications programs to minimise business risks including level crossing safety.
- Consider longer term brand opportunities and alliances with customers.

Performance targets

TasRail's Statement of Corporate Intent was submitted to its Shareholder Members in 2012 in compliance with Department of Finance and Treasury Reporting Guidelines for State-owned Companies. The document sets out TasRail's Strategic Direction, Key Initiatives and Performance Targets for the 2012/2013 financial year, as well as Performance Estimates for the period 2013/2014 through to 2015/2016.

Performance Target	2011/2012 Result	2012/2013 Forecast
Recordable Injury Frequency Rate*	33.8	16.3
On Time Arrivals (Intermodal and Paper)	82 per cent	83 per cent
Main Line Derailments	2	2
Customer Revenue	\$33.49 million	\$35.62 million
Capital Spend	\$63.57 million	\$88.46 million
EBITDA	(\$1.82 million)	(\$1.49 million)
Tasmanian Government Operating Grant	\$18.77 million	\$16.28 million

*Injury Frequency Rate = $\frac{\text{Number of relevant injuries in the period} \times 1,000,000}{\text{Number of exposure hours worked for the period}}$

The TasRail Statement of Corporate Intent is available for download at www.tasrail.com.au



Our values

Safety

A genuine care for the health and wellbeing of staff, contractors, customers and the wider community.

Integrity

Staying true to our values, even when it's hard.

Leadership

Clarity of vision and strategies, to drive a culture of unity and achievement.

Teamwork

Working together to achieve common goals and shared outcomes.

Responsibility

Owning actions and outcomes.

Excellence

Seeking and achieving exceptional outcomes in everything we do.

Innovation

Embracing new ideas, concepts and systems to create added value.



Pictured above from left: Michael Smith, Joel Stevenson, Chris Rousell, John Pedder, Gavin Brooks, Colin Curley, Tim Perchard, Alex Bartels.

Our results

TasRail delivered a solid performance in 2011/2012 earning a 7.4 per cent increase in total revenue up \$2.3 million to \$33.5 million.

The Above Rail result saw profit down from a modest \$40k in 2010/2011 to a loss of \$1.1 million in 2011/12. The decrease in profit is a direct result of the reduced intermodal volumes carried during the period. The fall in containerised freight volumes was predominantly caused by the demise of a major new customer (Agility Shipping) and another significant end customer electing to intermittently break-bulk substantial volumes of its commodity product via direct shipment. Despite this, TasRail largely maintained total freight volumes with only a 1.6 per cent reduction compared to the previous year's result. This was achieved through an increase in bulk freight and Shiploader throughput as well as through the introduction of new intermodal services.

Total State Government Operating Grant for 2011/2012 was \$18.8 million, a reduction of \$0.66 million compared to the \$19.46 million allocated in the previous financial year. Overall operating expenditure was in line with budget.

Trading Operating Loss (Before Tax) was \$4.3 million equating to a 6.5 per cent improvement compared to the 2010/2011 result. This can be explained by a combination of the improved external revenue result and greater than budgeted interest earnings.

Total Comprehensive Loss was \$36.3 million after impairment expense of \$31.7 million. When compared to the previous financial year, this represents a variance of negative \$8.45 million but it should be noted that the 2011/2012 result was offset by an inventory revaluation of \$7.2 million. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. The accounting treatment for Australian Government funding received for Below Rail requirements is treated as equity in the accounts of TasRail. As these assets do not provide a return now or into the foreseeable future and the assets are not able to be sold (have a notional residual value), the assets are subsequently impaired to nil value which creates an impairment charge to the profit and loss - generating a loss which is then offset against equity. It is important to note that these significant impairment expenses are not cash losses.

\$26.9million
Total Freight Revenue



\$3.6million
Total Shiploader Revenue



\$2.82million
Total Other Revenue

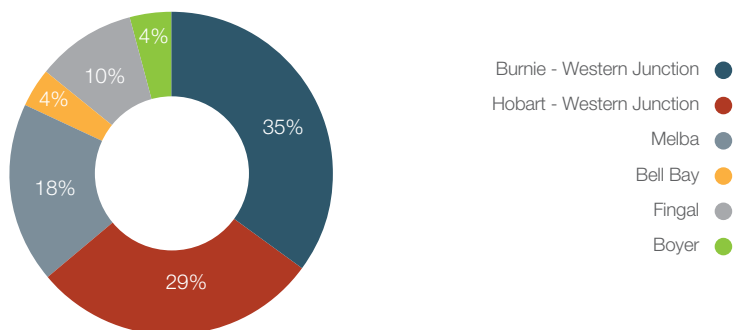


FAST FACTS

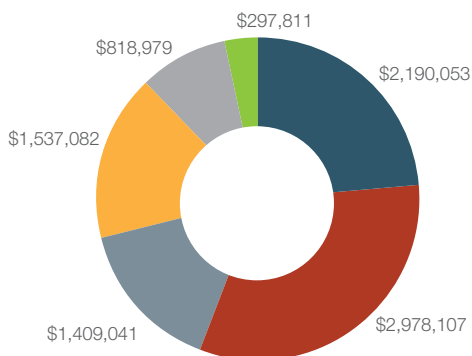
Since TasRail's establishment, the unprecedented investment in the rail network to date, combined with improved operational practices and a strong commercial focus has realised a significant improvement in the performance of the business, particularly in the areas of safety and reliability. However, there still remains much work to be undertaken to bring the infrastructure up to a modern day standard.

The Tasmanian Government is providing a total of \$139 million of capital funding over seven years to 2015/2016 for the replacement of life expired and obsolete assets including the purchase of 17 new locomotives, a new wagon fleet, a modern Train Control system and upgrades to bulk handling facilities. All of these projects were substantially progressed during 2011/2012. Of the total \$206.6 million of Nation Building Funding committed by the Australian Government for approved Below Rail projects to 2013/2014, TasRail has committed approximately \$130 million, or 63 per cent of that amount. The remaining available funds will be used for bridge replacements and the commencement of a concrete resleepering program.

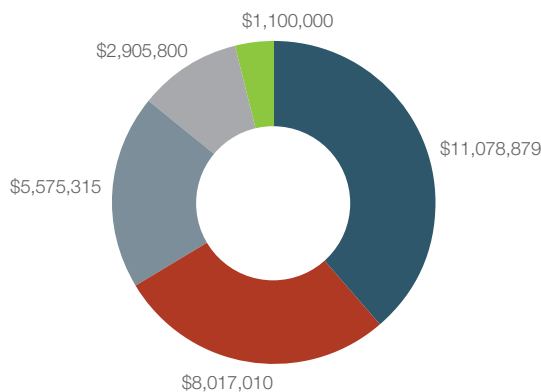
Spend by Line



Maintenance Spend by Line



Capital Spend by Line



TasRail Total Capital Improvement Activity as at 30 June 2012

TasRail Total Capital Improvement Activity as at 30 June 2012	Quantity
Number of new sleepers replaced	293,481
Metres of rail replaced	51,690
Number of rail welds completed	5,006
Tonnes of ballast replaced	61,991
Number of bridges upgraded or replaced	38
Number of bridge transoms replaced	5,069
Number of level crossing equipment upgrades	124
Number of road crossings upgraded	162
Number of creep monuments	2,032

safety is a core value

Working safely is fundamental to TasRail's success. All employees have the right to go about their work safely and with confidence that they will return home at the end of each shift injury free. We are confident that our goal of zero harm is ultimately achievable but it requires a genuine passion and belief by our employees, contractors and the community that all injuries and incidents can be prevented and that all tasks can be done safely.

TasRail is committed to being a leader in safety, health and environment (SHE) performance and to achieving a culture that empowers all employees to assume accountability for SHE performance. Significant resources were committed to the identification and elimination of unsafe/less safe behaviours and conditions in 2011/2012 and to mentoring and coaching frontline leaders to identify, eliminate and/or control workplace hazards. The participation by all employees in safety interactions and pre-task hazard assessments is also proving effective in helping to encourage and promote personal safety habits.

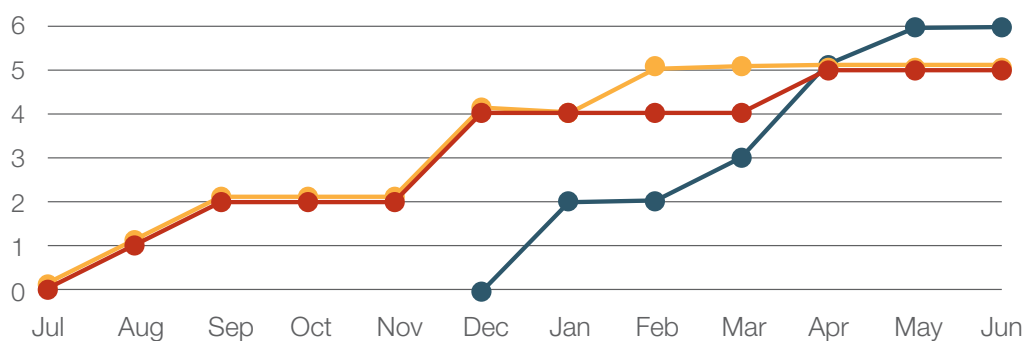
TasRail's run of 207 consecutive days without a Lost Time Injury (LTI) came to an end on 30 August 2011 (reported back injury). Of the five Lost Time Injuries reported for 2011/2012, three involved back injuries, one was a leg injury and one related to an occupational medical condition. While it is disappointing that the Lost Time Injury Frequency Rate for the year improved only marginally, there is strong evidence to show that the workforce is taking a more proactive approach to working safely. The statistical increase in the number of Medical Treatment Injuries for 2011/2012 reinforces this point, and is directly attributed to improved reporting and proactive post injury efforts. In the past, many of these injuries would have gone unreported.

Key Performance Indicator	2011/2012	2010/2011
Number of Lost Time Injuries	5	5
Lost Time Injury Frequency Rate*	8.1	9.5
Number of Medical Treatment Injuries	16	8
All Injury Frequency Rate*	90.2	101.2

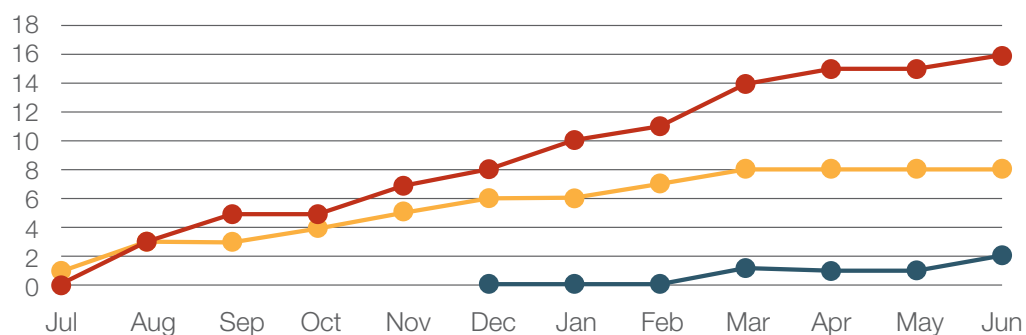
**Injury Frequency Rate = $\frac{\text{Number of relevant Injuries in the period} \times 1,000,000}{\text{Number of exposure hours worked for the period}}$*



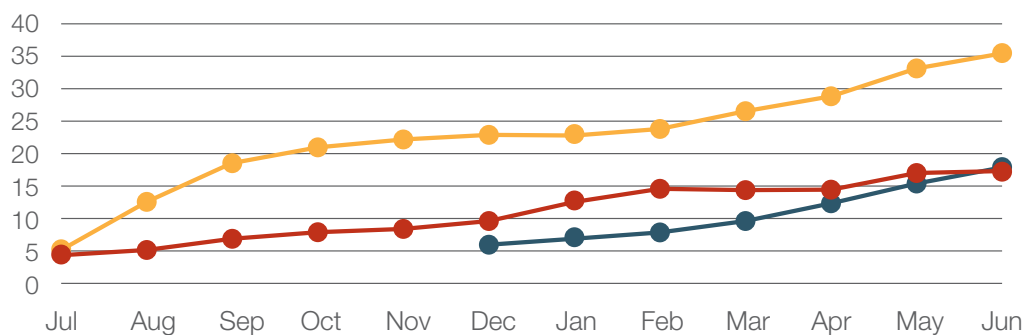
Lost Time Injuries 2011-2012



Medical Treatment Injuries 2011-2012



Safeworking Breaches 2011-2012



● Total 2011/2012
● Total 2010/2011
● Total 2009/2010 (7 months only)

Drug and Alcohol Testing

	2011/2012	2010/2011
Number of random drug tests	85	23
Number of routine drug tests - post incident	26	1
Number of positive drug test results	1	2
Number of random alcohol tests	199	178
Number of routine alcohol tests - post incident	34	61
Number of positive alcohol test results	0	1





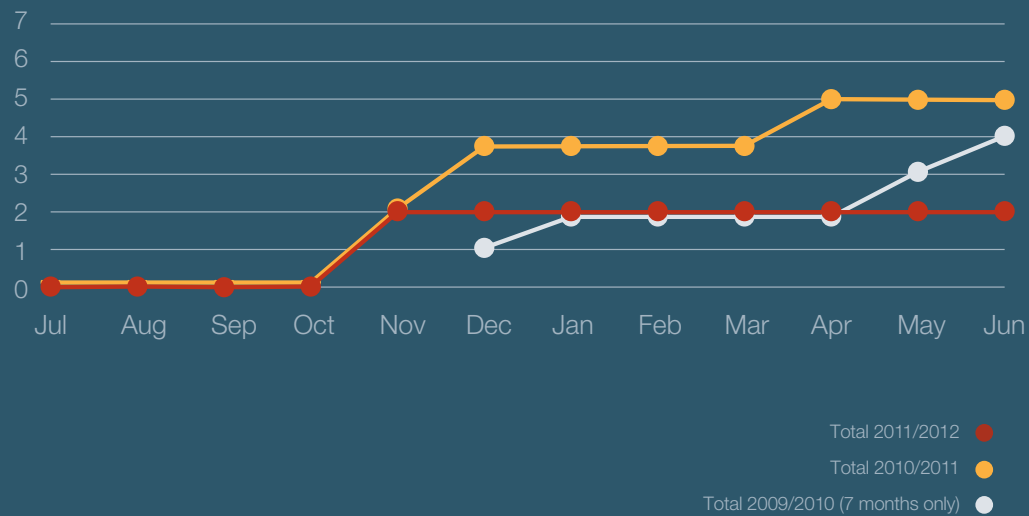
Reducing derailments

Mainline derailments have the potential to undermine customer, industry and community confidence. Therefore, one of the best measures of TasRail's much improved performance is the 60 per cent reduction in mainline derailments for 2011/2012. Two mainline derailments were recorded for the reporting period, compared to five for the previous year.

A most significant milestone saw TasRail end the 2011/2012 financial year having operated for 240 consecutive days without a mainline derailment.

Each derailment is reported to the Rail Safety Regulator and subject to thorough investigation. In most cases, preventative actions are identified and every effort made to prevent a recurrence. It must be acknowledged that the condition of the rail track, combined with the age and design of the current fleet of locomotives and wagons are consistently identified as contributing factors to derailments.

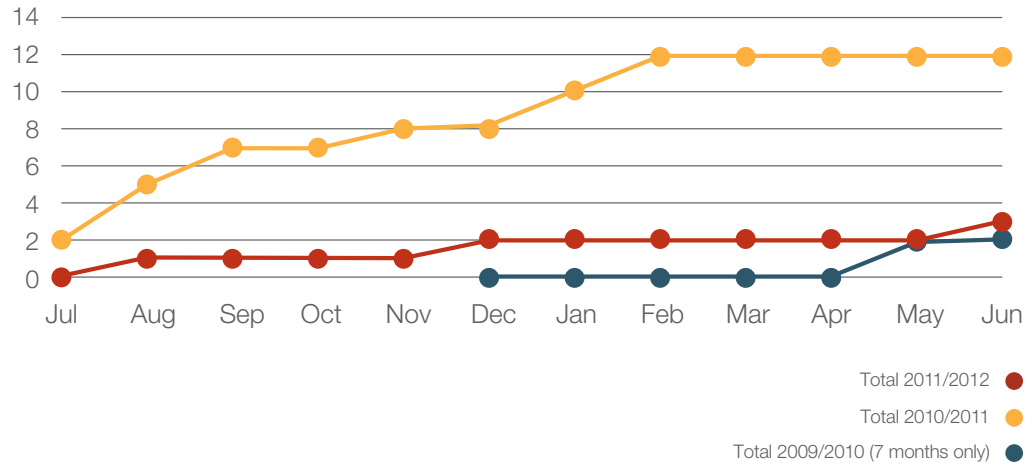
Mainline Derailments 2011-2012



Derailment Date	Location	Details	Root Cause
28 October 2011	Lowdina KPS48.80	A total of 9 wagons derailed in an upright position.	Combination of issues including track geometry, unstable formation and wagon loading.
3 November 2011	Campbell Town KPS146.5	A total of 18 wagons derailed in an upright position.	The primary contributing factor was the condition of the track caused by formation variances and aged and interspersed sleepers.

The number of yard derailments reported for 2011/2012 also dramatically reduced by 75 per cent, with a total of three compared to 12 the previous year.

Yard Derailments 2011-2012



Derailment Date	Location	Details	Root Cause
31 August 2011	East Tamar	One locomotive derailed.	Human error due to inattention.
8 December 2011	Boyer	Two wagons derailed over a road crossing.	An air brake mechanical failure caused wagon wheels to lock-up. Subsequently a quantity of material built-up on the wheel surface.
26 June 2012	Burnie	One wagon lifted during unloading causing two wheels to derail only to rerail after travelling a short distance.	Customer had inadvertently lifted wagon during unloading process.

New Harmonised Workplace Health and Safety Laws that are set to come into effect from 1 January 2013, prompted TasRail to review its current SHE systems, policies and practices to ensure alignment with the new requirements. Demonstrating continuous improvement using the recognised model of Plan, Do, Check and Review, streamlining existing documentation, and overhauling the safety management system to improve usability and functionality have formed the basis of work undertaken over the past 12 months.

A new Rail Safety National Law and new National Rail Regulations are proposed to come into effect in January 2013, subject to the approval of the Tasmanian Parliament. TasRail's preliminary analysis of the new Law and Regulations suggests there will be no substantial change to the way it currently manages rail safety, worker competency and risk management. Notable differences with the existing framework are the adoption of a National Rail Safety Regulator (NRSR), required to monitor the effectiveness of TasRail's safety management system and general obligations; and the change to appoint the Australian Transport Safety Bureau as the national investigating agency for serious rail incidents.

TasRail seeks to maintain a proactive relationship with Regulatory authorities and will work to ensure compliance with both the new Rail Safety National Law and the new Occupational Health and Safety Model Legislation.



Our green credentials

TasRail will be impacted by the introduction of the Australian Government's carbon pricing measures, most directly through a reduction in the claimable Fuel Tax Credit with effect from 1 July 2012. These cuts to the Fuel Tax Credit do not apply to the road transport sector. Under the Legislation, heavy on-road vehicles will also benefit from a blanket exemption on petrol and the decision not to apply a carbon tax to this sector until July 2014. As the voice for the rail industry, the Australasian Railway Association (ARA) contends that the Legislation's different treatment of road transport versus rail transport will result in a competitive disadvantage to rail. Research by the ARA reveals that intermodal rail has up to three times fewer emissions compared to heavy road freight. Although it appears counterintuitive to attach additional cost to the more emissions friendly mode of transport, TasRail remains confident that its lower carbon footprint will result in a competitive advantage over road transport in the longer term. In the meantime, TasRail has advised its customers that a Carbon Cost Surcharge will apply to all rail services from next financial year.

Looking forward to 2014/2015, TasRail's new locomotive fleet is to be fitted with European IIIA certified engines and is expected to deliver fuel and emission savings in the order of 10 to 15 per cent. The new fleet will also be capable of using Bio Diesel (B40 Fuel) should the technology advance and the fuel become readily available in the local market.

TasRail reports its greenhouse gas emissions to the Australian Government Department of Climate Change and Energy Efficiency. Emissions are calculated in accordance with the On-line System for Comprehensive Activity Reporting (OSCAR) administered by the Office of the Clean Energy Regulator.

Performance Indicator	2011/2012	2010/2011
Reported Scope 1 ¹ (FUEL) tonnes of CO ² emissions	18,189	18,197
Reported Scope 2 ² (ENERGY) tonnes of CO ² emissions based on annual consumption of 268,862 (GJ)	552	491
TOTAL tonnes of CO ² equivalent emissions	18,741	19,188
Number of environmental breaches	Zero	Zero

¹ Scope 1 (Fuel) defined as the release of greenhouse gas into the atmosphere as a direct result of an activity or series of activities (including ancillary activities) that constitute the facility.

² Scope 2 (Energy) defined as the release of greenhouse gas as a result of one or more activities that generate electricity, heating, cooling or steam that is consumed by the facility but that do not form part of the facility.

railed **2.34**million tonnes

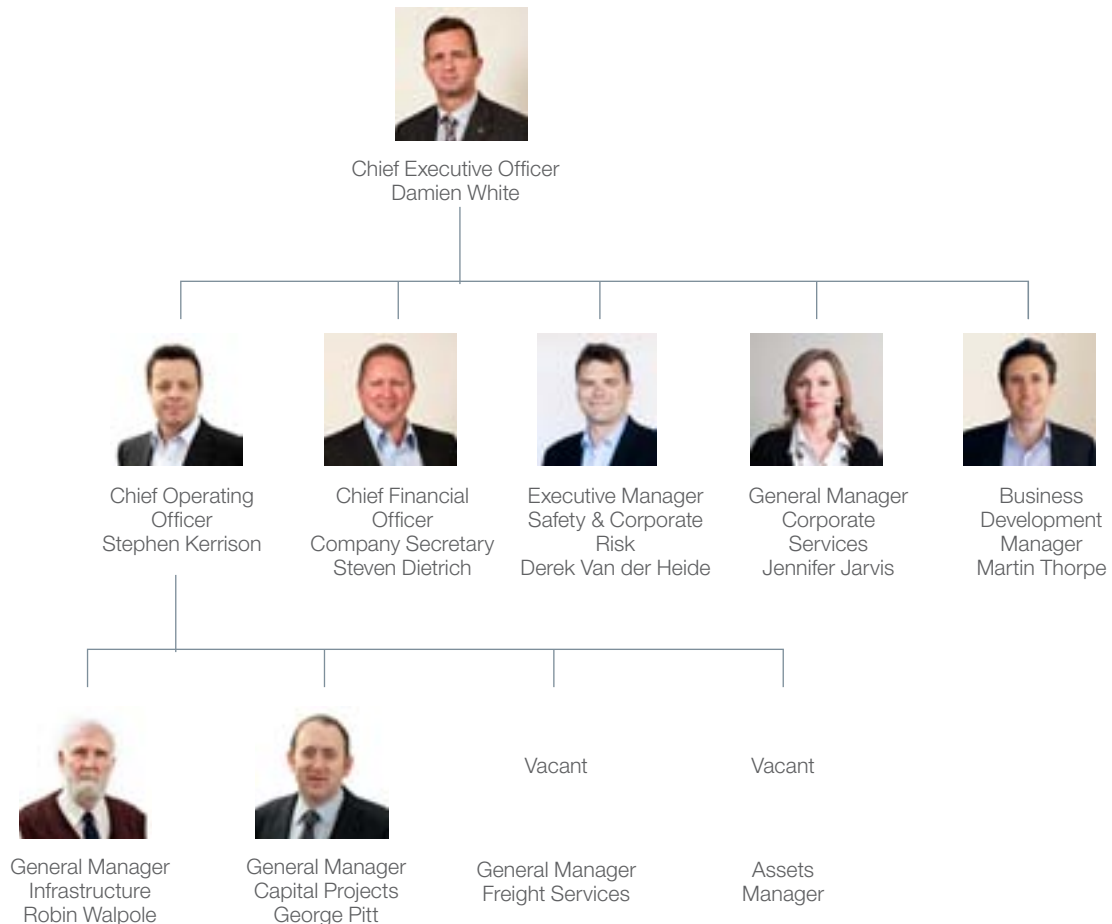
removed **100,000** Bdouble truck movement equivalents

saved **46,259**tonnes CO²

* Assumes 100,000 Bdouble truck movements generate 65,000 tonnes of CO².

Our Executive Team

As at 30 June 2012



Cameron Simpkins was appointed to the role of General Manager Freight Services, with effect from 27 August, 2012.

TasRail continued to invest in locomotive driver recruitment and training during 2011/2012. With more than half of TasRail's current team of train drivers aged 55 years and over, a significant number are likely to retire in coming years. This reality, combined with expected levels of business growth and market interest in new business opportunities, mandated the development and implementation of an attraction and retention strategy to ensure the sustainability of TasRail's operations in the medium to long term.

Train driving is a highly specialist skill. The training pathway is such that for a rookie recruit, it can take up to two years to attain the required level of competency. Even for a qualified interstate train driver, it can take up to six months to achieve all of the new competencies that are unique to TasRail, for example, route knowledge and required train handling skills to support what is a predominantly driver-only operation.

During the past year, TasRail has internally recruited 8 trainee drivers and attracted 11 qualified interstate train drivers to join its team.



Breaking new ground



Picture above: Karen Brodie is a great role model for young women contemplating a career in a non-traditional role.

History shows that recruitment of train drivers has always attracted strong interest, but not from the female population. That all changed in 2011/12 when TasRail's campaign to recruit qualified train drivers attracted the interest of two women, both well credentialed to take on the role. Karen Brodie's locomotive driving career began as one of the inaugural intake of female train drivers on the Queensland coalfields. She joined TasRail's East Tamar Depot in January 2012 and quickly established herself as a capable and highly respected peer.

Briony Bansemer was driving trains for TransAdelaide when she decided to take up the opportunity to join TasRail. While Karen and Briony have both found the train driver role in Tasmania quite different to their previous experience, they are enjoying their new challenge and progressing well as they assimilate route and equipment knowledge on the TasRail Network. As TasRail's first ever female train drivers, they can also be considered pioneers. They are part of a new generation being mentored by TasRail's long serving team of professional and experienced train drivers who have made a considerable contribution to the State's rail industry over many decades.

Carolyn Watkins can also consider herself a trail blazer. Carolyn is TasRail's first female Track Maintainer, appointed in August 2011. Working on the Melba Line, Carolyn is responsible to maintain track infrastructure in accordance with required Standards.

Joining Carolyn in the Infrastructure Department is Leaselle Archer. Leaselle is TasRail's first female Signals Electrician, Leaselle was recruited in February 2012. She is responsible to maintain, repair and upgrade signals and level crossing warning equipment.



Our Workforce profile

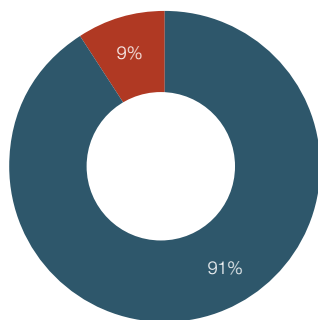
as at 30 June 2012

This is an exciting time to be employed at TasRail.

The recruitment of new and additional skills, the development of new business systems and the integrated management of the inherently complex change that is associated with the implementation of an ambitious capital program, all combine to offer employees a once in a generation opportunity to rebuild and transform the State's rail freight business.

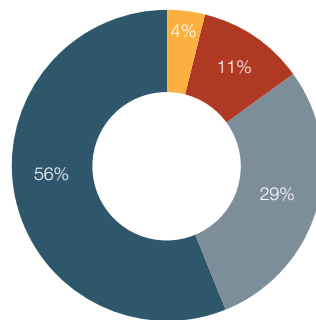
Since its establishment in December 2009, TasRail has worked to attract the additional capability and new skills required to successfully implement the Rail Recovery Plan. Of equal importance has been the work to ensure the business retains its core skills base, and the knowledge and expertise that has kept the business operational over many years and in challenging times.

By Gender



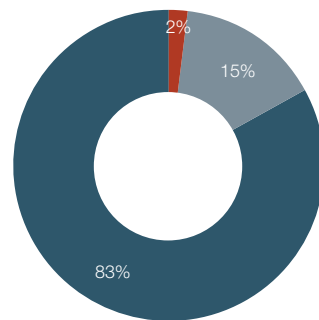
Female ●
Male ●

By Department



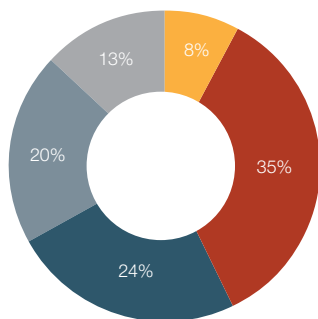
Infrastructure ●
Freight Services/Operations ●
Capital Projects ●
Administration and Support Services ●

By Employment Type



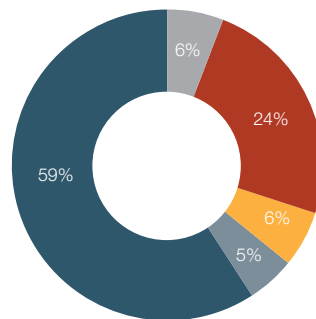
Permanent Full Time ●
Permanent Part Time ●
Casual ●

By Age Group



Aged 60+ Years ●
Aged 51-60 Years ●
Aged 41-50 Years ●
Aged 31-40 Years ●
Aged 17-30 Years ●

By Years of Service



40+ Years ●
31-40 Years ●
21-30 Years ●
11-20 Years ●
Less Than 10 Years ●

1.3%
Absenteeism



11%
Turnover



260
Full Time Equivalent Employees



FAST FACTS



A dynasty CONTINUES



Picture above from left: Steven Youd - Track Inspector South, Barry Youd - Track Inspector North West and Grant Youd - Locomotive Driver.

Three brothers with a shared passion for rail, and who collectively have contributed well over a century of service to the rail industry is an achievement worthy of public acknowledgement. Add to this the 17 years of service to the same industry by their father, and the word dynasty comes to mind.

Steven Youd started with the Tasmanian Railway in 1974 as a Fetter in Launceston, but quickly earned the opportunity to take on Statewide responsibility for the operation of the tamper and ballast regulator in 1975. He transferred to the Legerwood gang in 1976 and was appointed to the Ganger in Charge role in 1980 before being appointed Track Supervisor in 1983 responsible for Bell Bay to Western Junction and Conara Junction to Fingal. Steven decided to leave the industry in 1994 before returning in 2008. He is currently employed as a Track Inspector on the South Line.

Barry Youd started in 1968 as a Fencer working with the Mole Creek Gang but in 1971 he moved to the Moltema Gang. He spent seven years working on the various track machines before becoming a Ganger at Westbury. Barry took on the role of Supervisor from 1979 to 2004 until being appointed to his current position as Track Inspector for the North West.

Grant Youd has worked for the Tasmanian Rail Industry since 1973, spending the first sixteen years working at Deloraine under the then Station Master. He then took on the role of Lad Porter at Railton where his tasks included selling passenger tickets for the Tasman Limited. Next, he moved on to Staff Working Porter then onto Shunting. Grant progressed to relief Station Supervisor, but transferred from operating grades to Locomotive Driving. Grant is passionate about his work and is a strong advocate of level crossing safety awareness, often promoting the rail safety message in schools and the media on behalf of TasRail.

Undoubtedly, the brothers' interest and love of all things rail was inspired by Joseph Youd. Joseph started his rail career in 1963, spending 17 years as a Fetter with the Moltema Infrastructure Gang. Son Barry joined his dad just five years later, and the two worked together in the same gang until 1972.



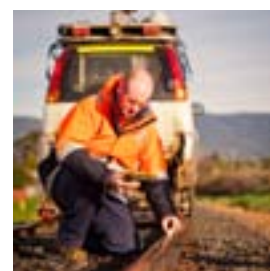


Restoring network integrity

The safety, reliability and integrity of the TasRail Network and associated infrastructure have improved considerably over the past 12 months, as evidenced by the 60 per cent reduction in mainline derailments for 2011/2012. This is in contrast to TasRail's first 18 months of operation when almost all of the Infrastructure maintenance efforts were reactionary, largely in response to ad hoc network defects. As the condition of the network has progressively improved, TasRail has been in a position to schedule increasing levels of planned maintenance. Additionally, internal maintenance staff have progressively developed the capability to perform required major rehabilitation works whereas historically, such works were only undertaken by specialist contractors. By shifting to a position where TasRail can perform more planned and less reactive maintenance, the business is better able to align its performance with customer expectations.

The improvement in overall track performance is even more notable, considering the first months of the 2011/2012 financial year were marked by multiple extreme weather events that caused havoc across parts of the rail network. Severe flooding saw sections of the track under water in the South Esk catchment in July and August, resulting in a 48 hour cancellation of train services on the South Line. Despite heavy rainfall, snow and strong winds on the West and North West Coast, train services on the Melba Line continued to operate as scheduled. However, Infrastructure work crews were kept busy at all hours, inspecting the track and clearing obstructions such as fallen tree limbs and debris. The Fingal Line required substantial repairs and rehabilitation after sections of track were washed away on 19 August 2011, also causing disruptions to train services. The cost of these unplanned repairs totalled more than a million dollars, not including the loss of revenue that resulted from the consequential train delays.

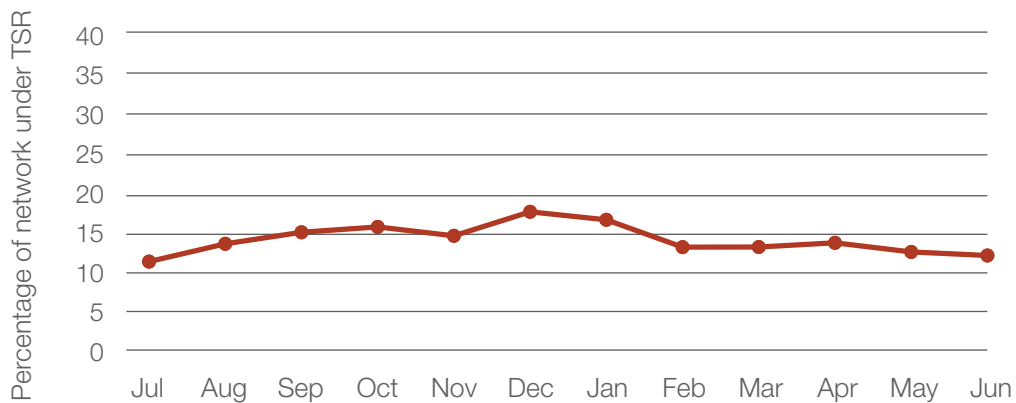
In addition to routine 96 hour track inspections and tamping activities, TasRail introduced new technology for the conducting of its six monthly track geometry monitoring of the entire rail network. A hi-rail vehicle fitted with laser equipment enables the track twist, gauge, cant, top and line to be measured. Each of these elements is a key parameter to ensuring a smooth and safe track for the passage of trains. As the hi-rail vehicle proceeds through the network at speeds of up to 30 kilometres per hour, a laser measurement is taken every 250 millimetres and the data is processed and provided in electronic form to TasRail. The results are particularly useful for comparing overall changes in track condition and to assist with the prioritising and programming of network maintenance and capital works.



Rail flaw detection work is carried out by Nicholas Radosavchevic.

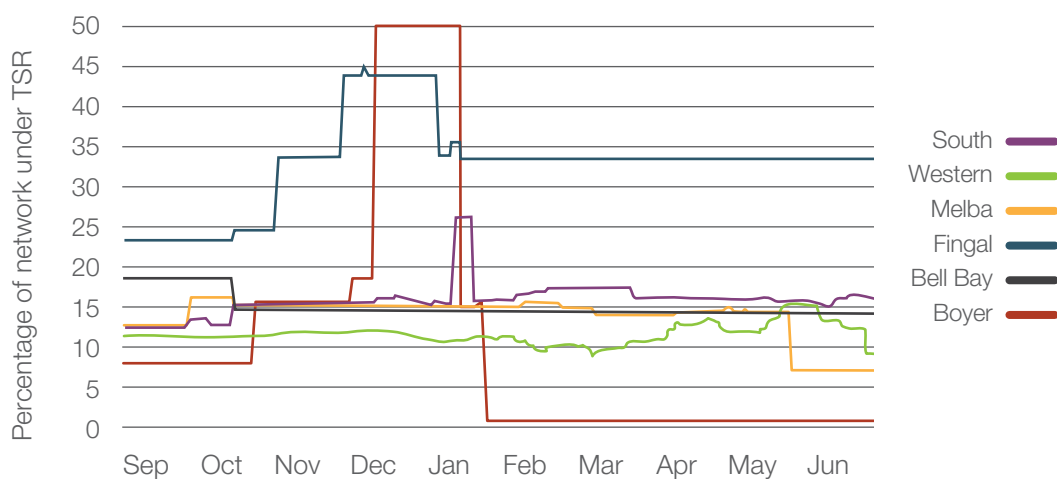
Where track condition may present particular issues or concerns, a Temporary Speed Restriction (TSR) may be imposed to minimise the risk of derailment. As sections of the track are restored to comply with correct Engineering and Operating Standards, the TSR is eased or removed. During 2011/2012, the percentage of the network under a TSR reduced compared to performance for the previous financial year. As can be seen from the graph below, the number of TSRs imposed increased during the warmer weather months due to re-sleepering works, particularly on the Fingal and Melba lines, together with heat induced track stability provisions. By imposing TSRs TasRail was able to better prevent and manage misalignments that have the potential to cause track buckles.

Temporary Speed Restrictions 2011/2012



An analysis of TSR performance by Line Section (see graph below) highlights the merit of TasRail's effort to reduce TSRs on those parts of the network used to rail freight that is more dependent on transit reliability. For example, Intermodal freight on the north-south corridor (comprising the South Line and the Western Line). The peaks shown on the graph during the months of December through to February are representative of the additional TSRs proactively imposed by TasRail during periods of hot weather.

Temporary Speed Restrictions by Line Section 2011/2012



Tamping machines are an essential tool for maintaining the track and reducing the requirement for TSRs. TasRail has two aged tamping machines, each of which has been in service for more than 20 years, and this has resulted in a requirement to hire a third machine that is principally allocated to Capital Projects. During 2011/2012 TasRail initiated a procurement process for the construction of a new tamper and regulator. The new machines represent a significant investment and are expected to be delivered and commissioned in late 2013.





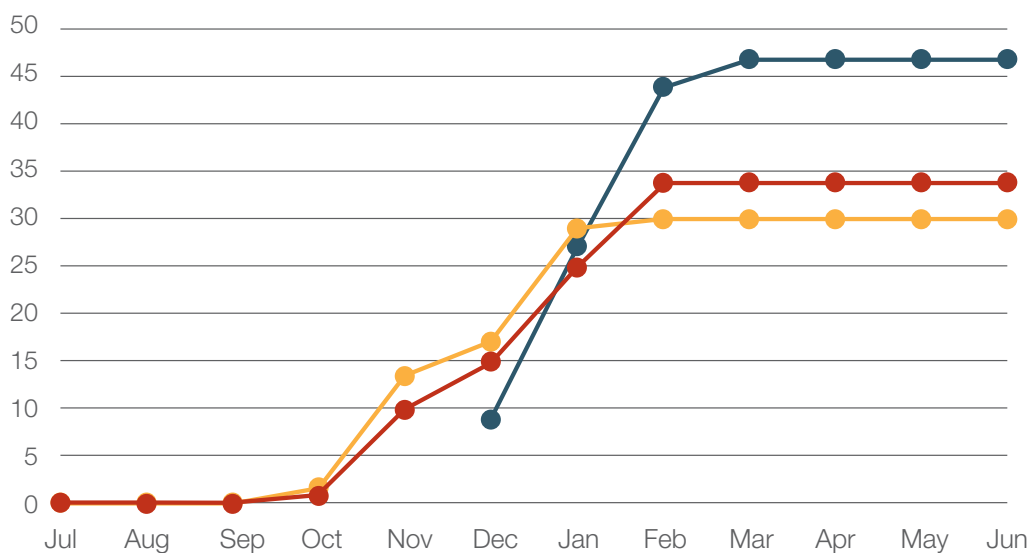
Pictured above before and after the formation works.

An example of upgrade works completed during 2011/2012 is the formation rebuild on the Melba Line during February. The works were necessary across a section of track that had caused continual 'rough riding' issues. When the formation under the track fails, it is difficult to maintain 'Top and Line'. As this was occurring over an extended section of track, the solution was to fix the drainage, remove the track, repair the formation and then replace the track.

The task involved removing 120 metres of track and excavating the fouled ballast back to the original base and grading to allow foundation drainage. Additionally, the embankment on the low side of the track was removed and graded to allow drainage. A new 300 millimetre culvert was installed at the centre of the rebuild. Geo Fabric was laid over the full distance and on top to prevent mud from entering the ballast bed and to hold the base of the ballast together. New ballast was laid to a depth of 300 millimetres². New track-lock sleepers were then placed at 650 millimetres and new 41 kilogram continuous welded rail positioned. New ballast was then added to rail height and lining, tamping and ballast regulating finished the process.

All of the works were performed during normal traffic conditions.

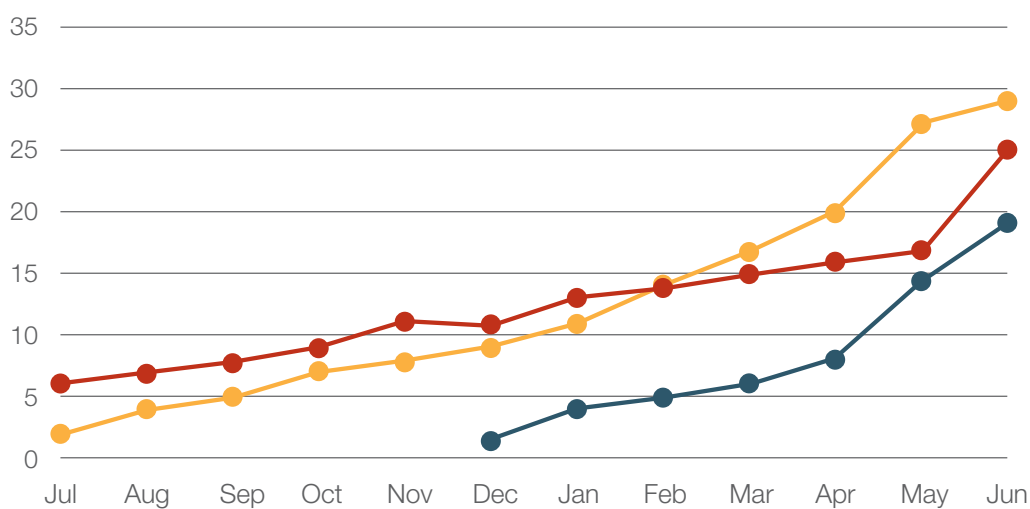
Total Heat Buckles and Misalignments 2011/2012



A heat buckle is defined as a track disturbance that renders the line unsafe for rail movements. A misalignment is defined as a track disturbance but allows rail movements over the line at restricted speed.

Total 2011/2012 ●
 Total 2010/2011 ●
 Total 2009/2010 (7 months only) ●

Total Rail Breaks 2011/2012



While the rate of track and infrastructure improvements is encouraging there are parts of the network that remain in poor condition. Close monitoring and intervention will be required to sustain safe operations until further funding is available for Below Rail upgrades. The current Memorandum of Understanding with the Australian Government expires in June 2014.

A Customer driven organisation

TasRail's efforts to date have been focused on stabilising the existing operations in order to restore credibility with our valued customers.

The frequency and extent of major network disruptions such as derailments has improved considerably since TasRail was established, but the business has higher expectations about its capability to further satisfy customer requirements. The introduction of new locomotives, wagons, terminals, and the further track improvements that are planned over the next few years will greatly assist this undertaking, but it is vitally important that TasRail continues to incrementally improve both its service levels and capacity within the constraints of the currently available equipment.

TasRail's customers are grouped into two very discrete industry segments, Bulk and Intermodal. Each segment has very different service requirements.

Our strategy for the Bulk business segment is to further expand into the supply chains of our customers wherever possible, with the aim to provide a full 'Pit to Port' logistics solution. TasRail already provides such a fully-integrated solution for a number of its existing customers, and it seeks to further develop this approach for new business opportunities.

The strategy for TasRail's Intermodal business segment is to create close and value-adding relationships with the State's Freight Forwarders. This approach is designed to enable customers to leverage TasRail's terminal and line-haul efficiencies, and will enable TasRail to make the most of its customers' presence within the Intermodal freight market. Such an approach is designed to provide best value to TasRail's customers, to exploit rail's natural advantages, and ultimately to provide improved access to markets for Tasmanian business and industry.

TasRail is increasingly optimistic about the growing appetite for rail freight transport within Tasmania, particularly as business and industry gain a better understanding of the role and opportunities that an efficient and customer-responsive network of rail services can offer in a carbon-constrained environment, and where improved levels of safety are a valued point of difference compared to our competitors.

The early accomplishments of TasRail demonstrate the value that a reliable rail service provides. We are confident that with the impending arrival of new equipment, the business will deliver further reliability, efficiency, and capacity to cater for the increasing demand for rail freight services.







Service quality

TasRail's Intermodal customers require consistent and reliable train arrival and departure times. This is particularly important for those customers that require their product loading and/or unloading activities to be co-ordinated with domestic and international shipping schedules. Our credibility to attract and grow freight volumes for this business segment requires continuous improvement of performance and service levels, and it is pleasing to report that Intermodal train arrival performance improved from 77 per cent in 2010/2011 to 81.5 per cent in 2011/2012. Train departure performance, which significantly influences train arrival times, also increased to 91 per cent in 2011/2012, up from 84 per cent the previous financial year.

For Bulk commodity customers, their priority is to ensure that TasRail provides a constant service that meets the required accumulated tonnage movement over a period of time. A measure of TasRail's service performance is therefore our capacity to ensure all required volumes are ship loaded and exported in quantities consistent with customer orders, shipping manifests and sailing schedules. In 2011/2012 TasRail met all required shipments for Bulk commodities.

Train Type	Number of Services 2011/2012	Number of Services 2010/2011	Change in Performance
Intermodal	1369	1252	↑ 117
Bulk	4580	4542	↑ 38

115

Train services each week



91%

Train departure performance (within 30 minutes)



81.5%

Train arrival performance (within 30 minutes)



FAST FACTS



Establishing new services

A major milestone during the reporting period was the recommencement of freight services between Launceston and Burnie and Launceston and Hobart. Integral to TasRail's ability to start-up these new services was the re-opening of the rail siding at East Tamar, owned by the Toll Group. It had been five years since container rail services had last operated into and out of Launceston and when Toll approached TasRail to undertake the task as a matter of urgency, it was satisfying to demonstrate our capability to quickly respond to customer need by successfully mobilising our resources within the timeframe required. Initial freight volumes have been solid with 7,542 tonnes (568 TEU) being railed from Launceston to Burnie and 6,312 tonnes (368 TEU) between Burnie and Launceston. As at 30 June 2012, the Launceston to Hobart service had only just commenced, but forecast freight volumes are promising for 2012/2013. TasRail considers that servicing this region is key to market growth.

Other accomplishments of note during the reporting period included the relocation of the TasRail Train Control Centre from East Tamar to TasRail's Head Office at the Launceston Techno Park. The Train Control Centre operates 24/7 and is a critical function accountable for controlling all track access and safe rail movement across the network. The relocation was not without challenge, but was achieved without issue. The new Train Control Centre offers improved amenities and an improved interface with Train Planning and Customer Service Staff. There is also the capacity to operate two Train Control desks if required during peak access periods. The East Tamar Train Control Centre will remain in situ until TasRail's plans for a more modern Train Control System are implemented. TasRail went to the market in November 2011 (through an Expressions of Interest process) for the design, supply and installation of the new system. At the time of writing this report, negotiations with a preferred supplier are well progressed.

In tandem with the relocation of Train Control to the Techno Park, TasRail commenced a review to optimise the way its Customer Service, Train Planning and Train Control functions interface. TasRail expects to implement the review recommendations by the end of 2012.

1,534,996 tonnes
Bulk freight



812,109 tonnes
Intermodal freight



574,251 tonnes
Shiploader volumes





A new locomotive fleet



Pictured above: A computer generated image of the new TasRail locomotive prototype.

A significant milestone in the revitalisation of Tasmanian Rail was realised on 13 December 2011 with a major contract signing for the supply of 17 new PR22L locomotives, the first of which are expected to start arriving by mid 2013. The signing of the contract concluded an extensive and comprehensive commercial tender process that had attracted worldwide interest. The TasRail model, developed to analyse tender bids, considered a whole of life cost analysis that assessed factors such as maintenance costs, reliability, fuel costs and efficiencies, emission performance, proven record, longevity of design, warranty and service support.

Downer EDI Rail Pty Ltd, in partnership with Progress Rail USA was awarded the \$60 million plus contract. Progress Rail is a wholly owned subsidiary of Caterpillar Inc, one of the largest suppliers of Diesel Electric locomotives in the world.

TasRail train drivers and maintainers are intimately involved in the design process having travelled to the USA to provide input and to review cabin layout and functionality.



Pictured left: A 3D rendering of the new locomotive.

The current TasRail fleet	The new locomotive fleet
Life expired condition and beyond end of useful operating life (30 plus years old).	Proven design adapted for TasRail's unique operating environment.
Characterised by three compatibility types, four engine types, five generator types. Limited inter-operability. System is capacity constrained.	Single locomotive design able to cater for differing axle loads.
Train consist requires three to four locomotives to haul.	Train consist requires two locomotives to haul.
Maximum ruling grade haulage capacity of 450 tonnes.	Maximum ruling grade haulage capacity of 750 tonnes.
Unreliable with frequent breakdowns and very high level of intervention and unplanned maintenance.	High level of reliability.
Spare parts no longer available.	Readily available parts, service and warranty support.
Planned scheduled maintenance cycle of a maximum of 90 days.	Planned scheduled maintenance cycle of 180 days.
Fuel inefficient.	Significant fuel and emission savings.
Tunnel operations present significant risk of breakdown and related OH&S issues.	Improved performance through tunnel operations.
Safety features progressively retrofitted by TasRail.	Superior driver safety including improved collision protection in design.
Diesel only operation.	Capable of Bio Diesel (B40 fuel) should technology advance/fuel become available.

With commissioning of the new locomotive fleet not expected to start until 2013/2014, TasRail needs to continue operation of its fragile, 40 year old existing fleet. This is an increasingly significant challenge that should not be underestimated.

To ensure that TasRail can continue to meet customer needs and respond to market demand for new services, the Board of Directors approved the purchase of four second hand locomotives from Queensland Rail (QR). The initiative enables TasRail to more effectively manage constraints in haulage capacity and fleet compatibility until the new locomotives arrive, and to defer the planned overhaul of some of the older locomotives in the existing fleet. The ex QR locomotives arrived from Brisbane in late November and were progressively entered into service through February and March 2012. They are now numbered 2051, 2052, 2053 and 2054.



New wagon fleet

A tender process for the procurement of a new wagon fleet was issued to the market on 23 April, 2012. The age and lack of compatibility of TasRail's inherited fleet is a known contributor to the risk of derailment and the need to replace these life expired, unreliable and inefficient wagons is urgent. Many are of obsolete design with structural and corrosion issues, requiring high levels of maintenance intervention. The fleet's performance is not conducive to a vibrant and customer responsive rail operation and it is no longer able to handle increasing volumes of heavy container traffic.

TasRail took the initiative to work with the Department of Economic Development and the Industry Capability Network to facilitate briefings with potential Tasmanian suppliers, including holding one-on-one briefings with local manufacturers prior to conducting the formal process. The tender closed on 8 June 2012, attracting offers from eight proponents. All bids will be subject to comprehensive evaluation and assessment, and TasRail expects to announce a preferred supplier by the fourth quarter of 2012.

The purchase of new cement, coal, ore and intermodal wagons, combined with new locomotives and a much improved track condition will position TasRail well into the future so it can continue to support Tasmanian business and industry.



Picture above: TasRail's current wagon fleet is urgent need of replacement.

40years

Average age of inherited wagon fleet



378wagons

Of seven different classes and three different capacities



74%

Availability due to obsolete design and condition



FAST FACTS





Developing new business

TasRail continues to pursue and develop long term strategies focussed on improving performance, increasing revenue and generating new opportunities. In early 2012 TasRail identified the opportunity to re-enter the log traffic market after an absence of nearly a decade.

A new partnership between TasRail and Forestry Tasmania was established to facilitate the return of logs to the rail network. A six week feasibility commenced in March 2012 to identify the most suitable wagon type and method of haulage. The trials involved assessment of loading options and load restraints with 720 tonnes of pine and hardwood logs railed between Boyer and Burnie.

The logs were monitored closely to observe dynamic stability behaviour and log movement. Whilst the return of logs to rail presented some challenges for TasRail's current wagon size and loading techniques, the trial demonstrated TasRail's ability to understand and overcome the issues.

The trial was judged a success and TasRail is currently working with a number of parties to agree commercial terms that should see a more regular service between the South and North of the State and long term efficient line haul solutions. This will be a significant milestone for the resurgence of rail freight operations in Tasmania.

TasRail has been working with the logistics industry in Tasmania to combine certain road interface operations with Rail to provide complete supply chain logistics solutions such as mining 'Pit to Port' operations.

TasRail ended the 2011/2012 financial year greatly encouraged by the number of new business opportunities it currently has under active development. Although each of these new business proposals is not without challenge and subject to intense competition from road transport providers, they are a clear indication of the renewed interest in rail that has been achieved in only a relatively short time. TasRail will continue to build its capability to respond to customer requirements and to increase its share of the contestable freight market, but it is important to reflect on the journey, the hard work and the investment that has enabled this turnaround in reputation. The reality is that business and industry can again depend on access to a viable rail service.







INTEGRATED TRANSPORT SOLUTIONS

Over the past 12 months, much planning and consultation has been undertaken by TasRail to create a more efficient interface between road and rail freight transport and the State's ports by creating a network of integrated transport solutions. This approach will not only result in vastly improved intermodal interfaces, but will improve utilisation of the rail network, deliver productivity efficiencies and make Tasmanian roads safer.

BURNIE OPTIMISATION

A tripartite approach to unlocking capacity constraints that currently exist at the Burnie Wharf has resulted in a redevelopment proposal for a new rail/port interface. TasRail, TasPorts and Toll have worked together to develop a solution to achieve a more efficient handling of freight arriving and departing by ship. The project received \$4 million in funding from the Australian Government in May 2012 and is currently in its final scoping phase. Construction is expected to begin in 2013.

GEORGE TOWN YARD

This development will see TasRail rebuild an existing rail siding that has not been in service for many years, to more efficiently handle the road and rail interface for Bell Bay industries. With the loss of the State's direct international container shipping service into the Port of Bell Bay, major industry is now required to 'land bridge' containers to either Burnie or Devonport for on-shipment via Melbourne. The George Town development will also support the return to rail of log consignments into Bell Bay.

BRIGHTON HUB

TasRail's role as operator of the Brighton Transport Hub is consistent with the Company's objective to become a leader in the Tasmanian Freight Logistics Industry. Relocation to the Hub represents the single biggest change to the way road and rail freight is moved between the north and south of the State and it will enable TasRail to more efficiently transact with both large and small transport companies. Ultimately it will deliver significant commercial opportunities through wide ranging efficiency gains, available only through a development of this nature.

Since being appointed to the role of Operator of the Brighton Transport Hub in June 2011, TasRail has assumed management and operational responsibility for both the hardstand and warehouse zone. At senior level, TasRail has been working to conclude commercial negotiations with a number of freight forwarding companies but these negotiations are complex, and by necessity, will require those businesses to evaluate and assess what are considerable and long-term investment decisions. In the meantime, steady progress is being made to facilitate the progressive start-up of operations by mid 2013, subject to successful conclusion of the negotiations. Work to date has included the installation of critical infrastructure to support TasRail's required Rail Safety Accreditation, the fit-out of the Quick Fix Workshop, establishment of office facilities, ICT infrastructure, security and staff amenities, and appropriate signage.



Picture above left: Philip Clark, AM - Chairman, Tasmania Infrastructure Advisory Council, with (centre) Sir Rod Eddington - Chairman, Infrastructure Australia, and (right) TasRail's Terminal Manager, Russell Jager toured the Brighton Transport Hub in May 2012.

HOBART RAIL YARDS

TasRail's existing southern rail terminal is a constrained operating environment. Volume growth is problematic at this location, there is no interface with the Hobart port and the road-rail interface is much less efficient than that which has been established at the Brighton Transport Hub.

TasRail's impending relocation to the Brighton Transport Hub therefore opens up a unique opportunity for the Hobart Rail Yards to be re-developed for other purposes. However, the future use of the 8.4 hectare waterfront site is a matter for the Department of Economic Development and the Crown to determine, not TasRail. In June 2012 the Tasmanian and Australian Governments signed a Project Agreement to underpin a \$50 million grant being provided for remediation of the site. TasRail is represented on the Steering Committee responsible to oversee the remediation and consultation process.

A number of interested parties have also expressed interest in utilising the Hobart to Brighton Rail Line that is currently leased to TasRail by the Crown. This particular section of the network runs for approximately 20 kilometres and includes some 25 level crossings. Any proposal to continue its operational status beyond TasRail's relocation to Brighton will therefore need to sustain the costs of maintaining the railway line to an appropriate standard as well as maintain and service related infrastructure and level crossings. Until such time as a feasible and approved purpose is determined for this section of the network, TasRail plans to maintain the infrastructure on a non-operational basis.



Planning ahead

As stated elsewhere in this report, the incremental recovery in the condition of the rail infrastructure has progressed to a point where resources can be largely focussed on a planned maintenance regime, rather than being continually diverted to reactive or crisis situations.

TasRail has only been able to achieve this improvement in performance turnaround because of substantial funding commitments by the Australian and Tasmanian Governments. With all of this funding now either invested or allocated it is imperative that TasRail looks beyond the term of the existing funding arrangements to ensure there is not a return to the problems created by the past years of underinvestment.

TasRail will complete the replacement and/or refurbishment of the four North West Rail Bridges, and the insertion of 100,000 concrete sleepers on the tightest curves on the South and Western Lines by June 2014. Beyond this time there is no further funding currently available to TasRail to enable it to continue the upgrade of track. This means that large sections of the network will continue to operate with near life expired rail. Additionally, TasRail will not be able to achieve reductions in the cost of maintaining the network without extending its coverage of concrete sleepers on the network.

Pictured below: The new Blythe River Rail Bridge is on schedule for completion by the end of 2012.





TasRail is set to commence its concrete sleeper installation program across some 70 kilometres of the rail network.

To this end, and as part of the Tasmanian Government's submission to Infrastructure Australia, TasRail has submitted a funding request that provides for replacement of all life expired or near life expired rail, and a continuation of concrete sleeper installation across the entire north-south corridor between Brighton and Burnie. The requested funds for this purpose amounts to a total of \$240 million. It is likely that if approved, this funding would be spread across a number of years. This investment will deliver a long-term, sustainable rail network for Tasmania and would enable TasRail to finish the very good work started by the Rail Recovery Plan.

TasRail recognises that a key determinant in funding decisions by Infrastructure Australia is the inclusion of a well developed and plausible business case that is aligned to an overall Infrastructure Strategy for the State. TasRail works co-operatively with road and port authorities, business and industry to ensure that its planning and desired strategic outcomes are consistent with those for roads and ports and will ultimately deliver an integrated, competitive, reliable and safe transport system for Tasmania.

In terms of TasRail's operational assets, its replacement program is well advanced. To ensure the full benefits of the new assets are able to be realised and exploited to the maximum extent possible, a comprehensive change program is being developed. The introduction of a new locomotive and wagon fleet, upgraded terminal facilities and a new Train Control System combined with an advanced understanding of freight market opportunities will enable TasRail to aggressively market its newly established freight service capability. The result will deliver benefits to Tasmanian business and industry and economic development. Less trucks and more rail freight will also reduce carbon emissions and make our roads safer and less congested.





Lose a minute, NOT your life

TasRail's work to create greater awareness of Level Crossing Safety is paying dividends with a 41 per cent reduction in the number of reported near miss incidents in 2011/2012 compared to 2010/2011. Whilst the improvement is encouraging, each of these incidents can cause trauma and severely impact the health and well being of train drivers, their family relationships and their quality of life.

Key Performance Indicator	2011/2012	2010/2011	Change in Performance
Number of reported near miss incidents at railway level crossings	69	118	↓ 41 per cent
Number of level crossing vehicle collisions	2*	7*	↓ 71 per cent
Number of level crossing pedestrian collisions	Zero	2*	↓ 100 per cent

**Includes one fatality*

Disturbingly, every one of these incidents could have been prevented if motorists and pedestrians were more attentive and always obeyed level crossing warning signs and signals.

Of the 69 reported near miss incidents reported in 2011/2012, an alarming 32 incidents (46 per cent) occurred in the North West of the State, 18 incidents (26 per cent) occurred in the South and 19 incidents (27 per cent) occurred in the North. The two vehicle collisions occurred at the same level crossing (Wilmore's Lane) in the North of the State. Each collision was subject to thorough investigation, and the findings confirmed that the level of protection installed at the crossing is appropriate for the locations and compliant with Australian Standards. The fatality remains subject to Coronial Investigation but TasRail notes Tasmania Police were reported to attribute motorist inattention as the cause of both collisions.

248

Level crossings on public roads



~250

Level crossings on private property



too many

Level crossing near miss incidents and collisions



FAST FACTS



Stay off the tracks

The trackSAFE Foundation was officially launched in November 2011 by the Australasian Railway Association (ARA), of which TasRail is an active member. Developed as a concept over two years, the trackSAFE Foundation works with official agencies, schools and community groups to raise awareness about rail safety, as well as with mental health institutions to try to understand and alleviate suicides on the rail network.

A tragedy happens every day somewhere on Australia's rail network due to level crossing accidents, incidents of trespass and suicide. Such incidents have a profound impact on railway staff who can suffer from stress and trauma for many years. During 2011/2012 TasRail actively participated in a series of trackSAFE workshops aimed at developing a National Best Practice Trauma Counselling Framework. The Framework will complement range of support services offered to employees including the Peer Trauma Support Group.

There are more than 30 fatalities a year on the 23,500 level crossings in Australia, as well as more than 200 suicides on the rail network. For more information and to watch a series of interviews with train drivers, go to www.tracksafefoundation.com.au



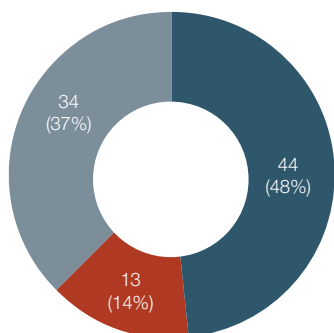
It is incredibly dangerous for persons to enter the rail corridor without appropriate authorisation and track protection.

In addition to level crossing incidents, 2011/2012 saw an increase in the number of reported incidents of Trespass. This trend is of concern to TasRail and further work is underway to educate the community about the risks of trespassing on TasRail property.

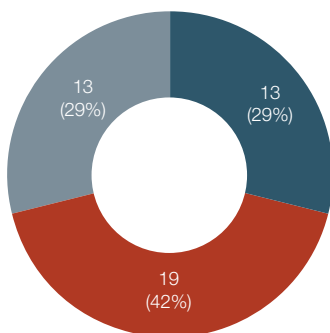
Key Performance Indicator	2011/2012	2010/2011	Change in Performance
Number of reported incidents of vandalism	45	47	↓ 4 per cent
Number of reported trespass incidents	91	54	↑ 68 per cent
Number of trespass incidents involving illegal riding on rollingstock	4	6	↓ 33 per cent

Livestock collisions have high potential to cause significant damage to TasRail assets including the risk of derailment. They also cause harm and distress to the animals, our train drivers and those involved in the aftermath. TasRail acknowledges and appreciates the assistance it receives from Tasmania Police and the Tasmanian Farmers and Graziers Association to address the increasing problem of livestock in the corridor.

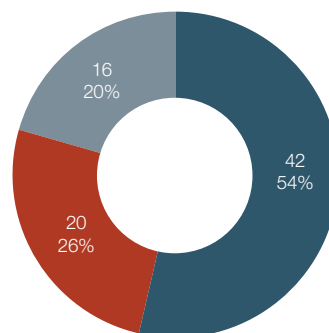
Number of Trespass Incidents by Region 2011/2012



Number of Vandalism Incidents by Region 2011/2012



Number of Incidents Involving Livestock in the Rail Corridor 2011/2012



North ●
 South ●
 North West ●







Working collaboratively

The results of a year-long investigation into the potential for a return of tourist and heritage passenger rail services to the TasRail Network concluded in December 2011, that Main Line access is not possible in the short to medium term.

A roundtable forum convened by TasRail and comprising representatives of Tasmanian Tourist and Heritage Rail Societies, the Rail Safety Unit and the Tourism Tasmania, committed to the research project early in 2011. The objectives of the study included research into the different public liability insurance models in place for tourist and heritage rail operations in other jurisdictions; and confirmation of the sections of TasRail's network that are of most interest to tourist and heritage rail operators. The latter phase of the project included documenting the type and frequency of services that operators aspire to access.

In parallel with this work, TasRail completed its own due diligence review of the risks associated with the single line freight railway network being used to carry passengers at present. That investigation revealed significant implications for TasRail in relation to the cost and coverage of its own insurance protection. It also highlighted commercial risks and the need for a more modern Train Control System to be commissioned as a prerequisite.

Each of the roundtable participants agreed that the current barriers to achieving access to the railway network are substantive and complex. However they are unanimous in their belief that the output from the research has provided an invaluable resource that will contribute to the business case for future heritage train operations in Tasmania.

TasRail acknowledges that there is significant community interest and support for tourist and heritage rail in the State, and it has agreed to review the situation in two to three years time. In the meantime, TasRail will continue to host the roundtable forum and to work co-operatively on matters of mutual interest. During 2011/2012 TasRail donated a number of redundant assets to tourist and heritage operators including Don River Railway, Derwent Valley Railway, Diesel Traction Tasmania, Tasmanian Transport Museum and the West Coast Wilderness Railway.



TasRail seeks to work with Tasmanian Tourist and Heritage Rail Societies on matters of mutual interest. During 2011/2012 redundant items of equipment were donated to each including four of its recently replaced hi-rail vehicles.

Good Corporate Governance

At TasRail, Corporate Governance relates to the system by which the business is directed and managed, and much of its success is underpinned by strong and effective relationships between the Board and the Management Team, the Shareholder Members and other stakeholders.

The Company operates to a Corporate Governance System that is consistent with the eight principles of Good Corporate Governance, published by the ASX Corporate Governance Council.

Corporate Governance Principle	Adopted by TasRail
1 Lay solid foundations for management and oversight.	Yes
2 Structure the Board to add value.	Yes
3 Promote ethical and responsible decision making.	Yes
4 Safeguard integrity in financial reporting.	Yes
5 Make timely and balanced disclosures.	Yes
6 Respect the rights of Shareholders.	Yes
7 Recognise and manage risk.	Yes
8 Remunerate fairly and responsibly.	Yes

In addition to the above Corporate Governance Principles, TasRail complies with the Department of Treasury and Finance Governance Framework and Guidelines in relation to:

- ✓ Board appointments
- ✓ Director induction, education and training
- ✓ Assessing Board Performance

TasRail complies with its obligations pursuant to the following Key Governance Documents:

- ✓ *Corporations Act 2001*
- ✓ *Rail Company Act 2009*
- ✓ Shareholder Members' Letter of Expectations
- ✓ Treasurer's Instructions
- ✓ Guidelines for Tasmanian Government Businesses
- ✓ Tasmanian Railway Pty Limited Directors' Code of Conduct

TasRail has two Shareholder Members – The Tasmanian Minister for Infrastructure, the Honourable David O'Byrne MP as the Portfolio Minister; and the Tasmanian Treasurer, the Hon. Lara Giddings MP.

The Company is managed by a Shareholder-appointed Board of five Directors that meets monthly. The Chairman and Directors are independent Non-Executive.



Glossary

Active Level Crossing	A railway level crossing protected by warning bells and lights	Intermodal Train	Wagons set-up with twist locks or pockets to haul a combination of TEU or FEU Intermodal containers
AIFR	All Injury Frequency Rate	LTI	Lost Time Injury
ARTC	Australian Rail Track Corporation. A National body established in 1997 by Commonwealth and State Governments	LTIFR	Lost Time Injury Frequency Rate
Bulk Commodity	Non-containerised bulk products including coal and minerals	LGAT	Local Government Authority of Tasmania
CEO	Chief Executive Officer	MOU	Memorandum of Understanding
CFO	Chief Financial Officer	MTI	Medical Treatment Injury
CO²	Carbon dioxide	Network	Tasmania's rail system including all operational and non-operational railway lines, shunt yards, bulk storage and shiploading facilities and other infrastructure including level crossings, bridges and tunnels
CO₂-e	Carbon dioxide equivalent	Passive Level Crossing	A railway crossing protected by signs
EA	Enterprise Agreement	Rollingstock	Locomotives and wagons
EBIT	Earnings Before Interest and Tax	SOC	State-owned Company
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation	TEU	Twenty Foot Equivalent Unit
FEU	Intermodal container that is 12.2 metres long (forty foot equivalent unit)	Train Control	Staffed 24/7 by highly skilled and experienced Train Controllers, Train Control is responsible for monitoring the network and ensuring Safe Working access for all authorised users across the entire rail network. It is staffed 24/7
FTE	Full Time Equivalent	TSR	Temporary Speed Restriction
GHG	Greenhouse Gas	Zero Harm	Aspirational goal to eliminate health, safety and environmental incidents and workplace injuries
Intermodal Containers	Standardised re-usable steel box used for the movement of materials and products. 'Intermodal' implies that the container can be moved from one mode of transport to another without unloading and reloading. Lengths, heights and types of containers may vary but are generally 6.1 metres long and commonly referred to as TEU		



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Directors' Report

The Directors present their report together with the financial report of Tasmanian Railway Pty Limited ("the Company") for the financial year ended 30 June 2012 and the independent auditor's report thereon.

1. Directors

The directors of the Company for the year ended 30 June 2012 are:

NAME AND INDEPENDENCE STATUS

SPECIAL RESPONSIBILITIES AND OTHER DIRECTORSHIPS



Mr Robert Annells
Chairman
Appointed 23 November 2009

Chairman – Governance and Remuneration Committee
Member – Capital Projects Committee
Chairman – VicTrack (since 1 April 2012)
Chairman – Melbourne Convention Centre & Exhibition Trust
Director – Tasmanian Development Resources Board (until September 2011)



Mr David George
Independent Non-Executive Director
Appointed 26 May 2011

Chairman – Safety and Performance Committee
Member – Capital Projects Committee
Member – Governance and Remuneration Committee
CEO – Co-operative Research Centre for Rail Innovation
Deputy Chairman – International Rail Research Board
Chairman – Organising Committee for the World Congress on Rail Research to be held in Sydney 2013



Mr Roger Gill
Independent Non-Executive Director
Appointed 4 November 2009

Chairman – Capital Projects Committee
Member – Strategy and Risk Management Committee
Member – Governance and Remuneration Committee
Director – Pacific Hydro Pty Ltd
Director – Tasmanian Irrigation Pty Ltd
Director – Hydro Focus Pty Ltd
Vice President – International Hydropower Association



Mrs Sarah Merridew
Independent Non-Executive Director
Appointed 17 December 2009

Chairman – Finance, Audit and Compliance Committee
Member – Safety and Performance Committee
Member – Governance and Remuneration Committee
Director – MyState Limited
Director – Tasmanian Water and Sewerage Corporations



Mr Robert Neil
Independent Non-Executive Director
Appointed 4 November 2009

Chairman – Strategy and Risk Management Committee
Member – Finance, Audit and Compliance Committee
Member – Safety and Performance Committee
Member – Governance and Remuneration Committee
Director – Neil Consulting Pty Ltd



William Dewar
Board Secretary



Steven Dietrich
Company Secretary
Reports to the Board

The number of directors' Board and Board Committee Meetings and the number attended by each of the directors of the Company for the year ended 30 June 2012 are:

Board Meetings

DIRECTOR	MEETINGS HELD	MEETINGS ATTENDED
Robert Annells	14	13
David George	14	12
Roger Gill	14	13
Sarah Merridew	14	13
Robert Neil	14	14

Safety and Performance Committee

DIRECTOR	MEETINGS HELD	MEETINGS ATTENDED
David George	6	6
Sarah Merridew	6	4
Robert Neil	6	6

Finance, Audit and Compliance Committee

DIRECTOR	MEETINGS HELD	MEETINGS ATTENDED
Sarah Merridew	5	5
Robert Neil	5	5

Strategy and Risk Management Committee

DIRECTOR	MEETINGS HELD	MEETINGS ATTENDED
Robert Neil	5	5
Roger Gill	5	4

Capital Projects Committee

DIRECTOR	MEETINGS HELD	MEETINGS ATTENDED
Robert Annells	13	11
David George	13	13
Roger Gill	13	12

Governance and Remuneration Committee

DIRECTOR	MEETINGS HELD	MEETINGS ATTENDED
Robert Annells	1	1
David George	1	1
Roger Gill	1	1
Sarah Merridew	1	1
Robert Neil	1	1

2. Principal activities

The Company is a vertically integrated Company which owns and operates the rail business in Tasmania. The Company is a State-owned Company, the shareholders being the Tasmanian Treasurer and the Tasmanian Minister for Infrastructure, Energy and Resources.

The principal activities of the Company during the course of the financial year 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 year.

3. Operating and financial review

Operating segments

Consistent with the *Tasmanian Rail Company Act 2009*, the Company's business is operated in 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 programs. The railway is a narrow gauge railway built in the late 1800's and the current line still uses much of the original formation and alignment. The Tasmanian rail network consists of 632km of operational track and 213km 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 year ended 30 June 2012 was \$36,294,202 after an impairment loss of \$31,749,528 (2011: net loss after income tax \$27,869,063 after an impairment loss of \$30,390,998). This has been calculated in accordance with Australian Accounting Standards (AASBs). The impairment loss relates to Australian Government funded capital expenditure on the Below Rail infrastructure as a result of underinvestment in track maintenance in prior years. The treatment of impaired track assets will be in line with the Australian Government infrastructure capital funding agreements. Segment results were made up of the following, Below Rail net loss before income tax of \$34,931,209 (2011: net loss of \$27,909,658) and Above Rail net loss before income tax of \$1,133,360 (2011: net profit of \$40,595). The Tasmanian State Government provides recurrent operating grant funding for the Below Rail business segment.

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.

Under the terms of the Lease from the Minister for Infrastructure, Energy and Resources for the Rail Corridor and associated infrastructure, the Company is responsible for remediation of any environmental obligations that may become apparent as a result of the Company's operations or past operations of the network. There were no new environmental liabilities identified at balance date that would have a material effect on the Company's Financial Report at 30 June 2012. If significant environmental liabilities relating to past operations are identified in future, the Company would require financial support from the Tasmanian Government to fund the remediation.

5. Dividends

No dividends were paid or declared by the Company to members during the financial period.

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

A: The Company is continuing to invest and upgrade critical rail infrastructure to ensure a sustainable rail service in accordance with the Corporate Plan. There will be significant investment in replacing and upgrading the Company's rollingstock fleet to ensure enhanced reliability, efficiency and safety across the business. The Government has advised that the capital funds required to upgrade the Company's rollingstock fleet will be provided via an asset transfer from the state owned corporation Transend Networks Pty Ltd to the Company in the amount of \$20 million per annum for five years. This will be in substitution for the previously announced capital funding from the State budget.

B: The Tasmanian State Government has advised that they intend that the Company will become the operator of the Brighton Transport Hub and to this end, agreement has been reached in relation to the two fifty year leases to be entered into between the Crown and the Company that will give effect to this decision. At the date of reporting some condition precedents have not been met to trigger the commencement provision of either lease, but it is expected that this will occur early in the new financial year. The financial implications for the Company as a result of assuming the management responsibility for the Brighton Transport Hub are not fully defined at this time, however there will be clear operational benefits, some of which are being negotiated and are subject to commercial in confidence arrangements.

8. Directors' interests

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

9. Indemnification and insurance of officers

Indemnification

Indemnities have been provided to all current directors and officers of the Company.

Insurance premiums

Since 1 July 2011, the Company has paid insurance premiums in respect of directors' and officers' liability and legal expenses 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.

10. Auditor's independence declaration

The Auditor's independence declaration forms part of the Directors' Report for the financial year ended 30 June 2012.



Mr Robert Annells
Chairman

Dated at Launceston this 6th day of August 2012.

6 August 2012

The Board of Directors
Tasmanian Railway Pty Ltd
11 Techno Park Drive
KINGS MEADOWS TAS 7249

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 year ended 30 June 2012, 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



E R De Santi
Deputy Auditor-General
Delegate of the Auditor-General

→ **Statement of Comprehensive Income**
For the year ended 30 June 2012

	NOTE	2012 \$	2011 \$
Continuing operations			
Revenue from freight services		30,508,756	28,916,222
Grant income	4	18,775,000	14,590,000
Other income	4	3,030,569	2,261,566
		52,314,325	45,767,788
Salary and wages expense		(23,492,038)	(20,960,475)
Maintenance and consumables expense		(13,403,945)	(12,495,483)
Depreciation expense	6	(5,062,777)	(5,556,303)
Fuel and oil expense		(5,446,159)	(4,945,447)
Administration expense		(5,512,295)	(5,187,783)
Other expenses		(6,060,857)	(4,163,246)
Loss before net finance income		(6,663,746)	(7,540,949)
Finance income	7	2,348,705	2,909,130
Finance costs	7	-	-
Net finance income	7	2,348,705	2,909,130
Loss from continuing operations		(4,315,041)	(4,631,819)
Taxation equivalent expense	8	(9,754,492)	(6,971,172)
Loss for the year after tax		(14,069,533)	(11,602,991)
Impairment expense	6	(31,749,528)	(30,390,998)
Recognition of inventory	11	-	7,153,754
Taxation equivalent benefit on these items	8	9,524,859	6,971,172
		(22,224,669)	(16,266,072)
Net loss for period after tax before comprehensive income		(36,294,202)	(27,869,063)

Statement of Comprehensive Income continued

For the year ended 30 June 2012

	NOTE	2012 \$	2011 \$
Other comprehensive income			
Cash flow hedge reserve	19	(765,444)	-
Tax on other comprehensive income	8	229,633	-
Total comprehensive loss for the year		(36,830,013)	(27,869,063)

→ **Statement of Financial Position**
As at 30 June 2012

	NOTE	2012 \$	2011 \$
Assets			
Cash and cash equivalents	9	41,852,351	37,767,530
Trade and other receivables	10	4,503,315	6,350,999
Inventories	11	6,514,889	9,682,361
Other assets	12	95,062	-
Total Current Assets		52,965,617	53,800,890
Other assets	12	41,972	-
Deferred tax asset	13	-	-
Property, plant and equipment	14	58,614,485	41,716,546
Total Non-current Assets		58,656,457	41,716,546
Total Assets		111,622,074	95,517,436
Liabilities			
Trade and other payables	15	6,266,425	9,237,365
Employee benefits	16	4,012,325	4,110,610
Other liabilities	17	211,603	-
Total Current Liabilities		10,490,353	13,347,975
Employee benefits	16	473,451	117,199
Other liabilities	17	690,875	-
Total Non-current Liabilities		1,164,326	117,199
Total Liabilities		11,654,679	13,465,174
Net Assets		99,967,395	82,052,262
Equity			
Share capital	18	174,674,146	119,929,000
Reserves	19	(535,811)	-
Accumulated losses		(74,170,940)	(37,876,738)
Total Equity		99,967,395	82,052,262

Statement of Changes in Equity

For the year ended 30 June 2012

	NOTE	SHARE CAPITAL \$	CASH FLOW HEDGING RESERVE \$	ACCUMULATED LOSSES \$	TOTAL EQUITY \$
At 1 July 2010		81,865,000	-	(10,007,675)	71,857,325
Equity contributed	18	38,064,000	-	-	38,064,000
Loss for year		-	-	(27,869,063)	(27,869,063)
Total other comprehensive loss for the year	19	-	-	-	-
At 30 June 2011		119,929,000	-	(37,876,738)	82,052,262
At 1 July 2011		119,929,000	-	(37,876,738)	82,052,262
Equity contributed	18	54,745,146	-	-	54,745,146
Loss for year		-	-	(36,294,202)	(36,294,202)
Total other comprehensive loss for the year	19	-	(535,811)	-	(535,811)
At 30 June 2012		174,674,146	(535,811)	(74,170,940)	99,967,395

This statement should be read in conjunction with the accompanying notes.



Statement of Cash Flows

As at 30 June 2012

	NOTE	2012 \$	2011 \$
Cash flows from operating activities			
Receipts from customers		39,156,731	29,898,186
Grants received for operating activities		18,775,000	14,590,000
Payments to suppliers and employees		(57,276,564)	(44,930,546)
Cash generated from operations		655,167	(442,360)
Interest received		2,348,705	2,909,130
Interest paid		-	-
Taxation equivalent benefit paid		-	-
Net cash from/(used in) operating activities	23	3,003,872	2,466,770
Cash flows from investing activities			
Purchase of property, plant and equipment		(53,710,243)	(35,697,366)
Proceeds from sale of plant and equipment		46,046	229,597
Net cash from/(used in) investing activities		(53,664,197)	(35,467,769)
Cash flows from financing activities			
Proceeds from equity contributions	18	54,745,146	38,064,000
Net cash provided by financing activities		54,745,146	38,064,000
Net increase/(decrease) in cash and cash equivalents		4,084,821	5,063,001
Cash and cash equivalents at start of period		37,767,530	32,704,529
Cash and cash equivalents at 30 June	9	41,852,351	37,767,530

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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 11 Techno Park Drive, Kings Meadows, Tasmania 7249.

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 State Government were transferred to the Company.

2. Basis of preparation

(a) Statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) and Interpretations issued by the Australian Accounting Standards Board (“AASB”), and the *Corporations Act 2001*.

The financial statements comply with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

The financial report was authorised for issue by the directors on 6th August 2012.

(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

For the year ended 30 June 2012

3. Significant accounting policies

(a) Revenues

Provision of revenue from freight 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 grants

Government grants are assistance by the Tasmanian State 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 State Treasurer has formally designated this funding to be classified as equity. Where this occurs, the funding is allocated directly to "Share Capital" and is reflected in the Statement of Changes in Equity.

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.

3. Significant accounting policies (continued)

(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 1997*.

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.

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.

Notes to the Financial Statements

For the year ended 30 June 2012

3. Significant accounting policies (continued)

(c) Property, Plant and Equipment

(i) Recognition and measurement

Items of property, plant and equipment 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 or the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Assets under the amount of \$1,000 are recognised in the income statement at the point of acquisition.

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 on the depreciable amount, which is the cost or deemed cost of an asset, 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 - 40 years
Infrastructure	10 - 30 years
Rollingstock	3 - 12 years
Plant & Equipment	5 - 18 years
Motor Vehicles	1 - 15 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.

(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.

3. Significant accounting policies (continued)

(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. The provision is measured at the present value of management's best estimate of the expenditure required to settle the present obligation.

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.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Notes to the Financial Statements

For the year ended 30 June 2012

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 asset's 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 asset's 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). The Company has two reportable segments (CGU's) represented by Above Rail and Below Rail.

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. Impairment losses recognised in the profit and loss for the reporting period are accounted for one month in arrears once the carrying amount is verified subject to due diligence and final reporting verification procedures.

(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.

3. Significant accounting policies (continued)

(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.

(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. The credit risk on these balances is limited because the counterparties are banks with high credit ratings. As such management does not expect any counterparty to fail to meet its obligations.

Notes to the Financial Statements

For the year ended 30 June 2012

3. Significant accounting policies *(continued)*

(ii) Non-derivative financial liabilities

The Company's non-derivative 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, 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.

(iii) Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to capital and operational expenditure and foreign exchange rate risk. Further details of derivative financial instruments are disclosed in note 24 to the financial statements.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Hedge accounting

The Company designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges or cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship the Company documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument that it used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Notes 8, 12, 17 and 24 sets out details of the fair values of the derivative instruments used for hedging purposes.

Fair value hedge

The Company does not have any fair value hedges.

3. Significant accounting policies (continued)

Cash flow hedge

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognised in 'other comprehensive income' and accumulated under the heading of 'cash flow hedge reserve'. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognised in 'other comprehensive income' and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously in other income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss in other income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss.

When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

(I) Business combinations

The Company applies the acquisition method for business combinations. 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.

Notes to the Financial Statements

For the year ended 30 June 2012

3. Significant accounting policies *(continued)*

(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 Company in the period of initial application. They are available for early adoption at 30 June 2012, but have not been applied in preparing these financial statements. The Company intends to adopt these standards in the first financial reporting period to which each standard is first applicable to. The extent of impact, if any, that the initial implementation of the Standards will have on the financial statements has yet to be determined.

- AASB 9 'Financial Instruments' - In October 2010 the IASB issued IFRS 9 Financial Instruments (IFRS 9 [2010]) with an effective date of 1 January 2013. IFRS 9 (2010) supersedes the previous version that was issued in November 2009 (IFRS 9 [2009]). In December 2011 the IASB deferred the effective date of both these standards to 1 January 2015 and the AASB is in the process of doing the likewise for AASB 9. Early adopters may elect to apply IFRS 9 (2010) or IFRS 9 (2009) for periods beginning before 1 January 2015. This standard forms part of the IASB's comprehensive project to replace IAS 39 (AASB 139). The standard represents a significant change in the accounting for financial assets and liabilities. The impacts of these amendments, which become mandatory for the Company's 30 June 2016 financial statements, have not yet been quantified.
- Presentation of items of other comprehensive income (Amendments to AASB 101). This amendment clarifies the presentation requirements in the Statement of Comprehensive Income and relate to disclosure changes only. The amendments, which become mandatory for the Company's 30 June 2013 financial statements, are not expected to have any impact on the financial statements.
- AASB 13 - Fair Value Measurements - this new standard replaces the fair value measurement guidance in individual AASB's with a single source of fair value measurement guidance. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The impacts of this new standard, which becomes mandatory for the Company's 30 June 2014 financial statements, have not yet been quantified.
- Amendments to Australian Accounting Standards AASB 7 and AASB 132 – Disclosures: Offsetting Financial Assets and Financial Liabilities – This amendment clarifies the offsetting rules for financial assets and liabilities (no longer converging with US GAAP) and introduces new disclosure requirements (which do align with US GAAP). The amendments, which become mandatory for the Company's 30 June 2015 (AASB 132 offsetting rules) and 30 June 2014 (AASB 7 Disclosures) financial statements, have not yet been quantified.

(n) Leased assets

Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases, with a leased asset recognised in the statement of financial position. Other leases are operating leases and are not recognised in the Company's statement of financial position. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

(o) Capital management

The Board's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business. Capital consists of share capital and retained earnings of the Company. There were no changes in the Company's approach to capital management during the year.

(p) Comparative period

Where necessary, comparative figures are adjusted to conform with changes in presentation in the current year.

→ **Notes to the Financial Statements**
For the year ended 30 June 2012

4. Other income	2012 \$	2011 \$
Grant income - Tasmanian Government contribution to operating expenditure (i)	18,775,000	14,590,000
	18,775,000	14,590,000
Property rental	1,283,083	1,055,842
Sundry	1,701,440	1,022,774
Net gain on sale of property, plant and equipment	46,046	182,950
	3,030,569	2,261,566

(i) All grants received are accounted for in accordance with the accounting policy in Note 3(a).

5. Auditors' remuneration	2012 \$	2011 \$
Audit Services		
Auditors of the Company:		
Tasmanian Audit Office		
Audit the financial report	45,110	43,800
	45,110	43,800

6. Expenses	2012 \$	2011 \$
Depreciation and impairment expense for the year consists of:		
Depreciation of buildings, plant and equipment	5,062,777	5,556,303
Impairment of Infrastructure (Note 14)	31,749,528	30,390,998
	36,812,305	35,947,301

Notes to the Financial Statements

For the year ended 30 June 2012

7. Net finance income	2012	2011
	\$	\$
Net foreign exchange loss	-	-
Interest expense	-	-
Finance costs	-	-
Interest income	2,348,705	2,909,130
Finance income	2,348,705	2,909,130
Net finance income	2,348,705	2,909,130

8. Taxation equivalent benefit	2012	2011
	\$	\$
Income tax expense attributable to continuing operations		
Current year expense / (benefit)	-	-
Adjustments for prior years	-	-
Deferred tax expense:		
Origination and reversal of temporary differences:		
Increase/(Decrease) in deferred tax liability	(1,336,901)	12,678
Decrease/(Increase) in deferred tax asset	53,326	(612,974)
Adjustments for prior years	46,101	(1,375,280)
Non-recognition of temporary differences and tax equivalent losses	10,991,966	8,946,748
Net income tax expense attributable to continuing operations	9,754,492	6,971,172
Income tax expense attributable to unusual items		
Deferred tax expense:		
Origination and reversal of temporary differences:		
Decrease/(Increase) in deferred tax asset	(9,524,859)	(6,971,172)
Net income tax (benefit) attributable to unusual items	(9,524,859)	(6,971,172)

→ **Notes to the Financial Statements**
For the year ended 30 June 2012

8. Taxation equivalent benefit (continued)	2012	2011
	\$	\$
Income tax expense attributable to profit/(loss) before other comprehensive income	229,633	-
Tax recognised in other comprehensive income		
Tax benefit relating to cash flow hedge reserve	(229,633)	-
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	(36,294,202)	(27,869,063)
Income tax using the domestic corporation tax rate of 30%	(10,888,261)	(8,360,719)
Increase in income tax expense due to:		
Non-deductible expenses	10,937	103
	(10,877,324)	(8,360,616)
Add prior year under/(over) provision	46,041	(586,132)
Non-recognition of temporary differences and tax equivalent losses	10,831,283	8,946,748
Total taxation equivalent expense/benefit	-	-
9. Cash and cash equivalents	2012	2011
	\$	\$
Bank balances	2,170,141	2,114,996
Call deposits	39,680,910	35,651,734
Petty cash on hand	1,300	800
Cash and cash equivalents in the statement of cash flows	41,852,351	37,767,530

Notes to the Financial Statements

For the year ended 30 June 2012

10. Trade and other receivables	2012	2011
	\$	\$
Current		
Trade receivables	3,323,038	2,770,779
Sundry receivables	238,128	2,458,429
Prepayments	264,016	83,600
GST receivable	678,133	1,038,191
	4,503,315	6,350,999

The average credit period on freight services is 39.3 days (2011: 34.7 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	2012	2011
	\$	\$
Consumables stock - At cost	6,324,106	9,431,413
Fuel stock - At cost	190,783	250,948
	6,514,889	9,682,361

The cost of inventory expensed in the year was \$13,305,959 (2011: \$10,931,854)

During the prior year, items of inventory were identified with no value attributed to them. These items were revalued to their current replacement cost at time of transfer which resulted in an other income "recognition of inventory" of \$7,153,754. There is no corresponding adjustment in the current period.

12. Other assets	2012	2011
	\$	\$
Current		
Derivative asset - cash flow hedges	95,062	-
Non-current		
Derivative asset - cash flow hedges	41,972	-

→ **Notes to the Financial Statements**
For the year ended 30 June 2012

13. Deferred tax assets and liabilities	2012	2011
	\$	\$
Recognised deferred tax assets and liabilities		
Deferred tax assets and liabilities are attributable to the following:		
Deferred tax assets		
Employee benefits	1,435,810	1,410,964
Trade and other payables	301,914	296,453
Property, plant and equipment	19,433,036	9,680,364
Carried forward tax losses - Revenue Losses	2,979,774	2,975,942
Carried forward tax losses - Capital Losses	517,702	517,702
Tax assets	24,668,236	15,006,719
De-recognised due to not being probable of recovery	(23,569,603)	(12,577,636)
Set-off against deferred tax liability	(1,098,633)	(2,429,083)
Net deferred tax asset	-	-
Deferred tax liabilities		
Inventory	965,558	2,221,411
Trade and other receivables	133,075	82,378
Tax liabilities	1,098,633	2,429,083
Set-off of tax	(1,098,633)	(2,429,083)
	-	-

A deferred tax benefit will only be recognised where the Company can demonstrate that it will derive future assessable income of a nature and an amount sufficient to enable the benefit to be realised.

As disclosed above, the Company has significant income tax benefits which are not recognised in the financial statements as it is not probable that these benefits will be realised. To the extent to which a current or deferred tax liability arises in the current year, then this has been offset by the recognition of tax benefits of the same amount.

Notes to the Financial Statements

For the year ended 30 June 2012

14. Property, plant and equipment	2012 \$	2011 \$
Leasehold Improvements (Buildings) - At Cost	5,158,474	3,609,444
Accumulated depreciation	(1,284,694)	(836,356)
	3,873,780	2,773,088
Infrastructure - At Cost	72,063,507	39,851,609
Accumulated depreciation	(2,095,411)	(816,399)
Accumulated impairment losses	(62,140,526)	(30,390,998)
	7,827,570	8,644,212
Plant and Equipment - At Cost	2,257,309	1,597,460
Accumulated depreciation	(620,691)	(515,953)
	1,636,618	1,081,507
Rollingstock - At Cost	23,435,386	17,994,166
Accumulated depreciation	(9,124,859)	(5,906,476)
	14,310,527	12,087,690
Motor Vehicles - At Cost	4,327,536	699,950
Accumulated depreciation	(698,919)	(393,341)
	3,628,617	306,609
Capital Projects	27,337,373	16,823,440
	27,337,373	16,823,440
Total property, plant and equipment net book value	58,614,485	41,716,546

During 2012, impairment losses of \$31,749,528 (2011: \$30,390,998) were recognised in relation to certain items of infrastructure relating to the Below Rail segment of the Company. These impairment losses are recognised in accordance with the accounting policy detailed in Note 3(h). The impairment losses noted above relate to assets first recognised in 2012 or 2011 respectively.

→ **Notes to the Financial Statements**
For the year ended 30 June 2012

14. Property Plant and Equipment <i>(continued)</i>	2012 \$	2011 \$
Reconciliations		
Reconciliations of the carrying amounts for each class of plant and equipment are set out below:		
Leasehold Improvements (Buildings) - At Cost		
Carrying amount at the beginning of the period	2,773,088	3,233,326
Additions	1,549,030	-
Depreciation	(448,338)	(460,238)
Carrying amount at the end of the period	3,873,780	2,773,088
Infrastructure - At Cost		
Carrying amount at the beginning of the period	8,644,212	9,899,807
Additions	31,735,183	30,428,520
Depreciation	(802,297)	(1,293,117)
Impairment Loss	(31,749,528)	(30,390,998)
Carrying amount at the end of the period	7,827,570	8,644,212
Plant and Equipment - At Cost		
Carrying amount at the beginning of the period	1,081,507	1,258,574
Additions	659,850	206,242
Reclassification/adjustments of assets	224,355	-
Depreciation	(329,094)	(383,309)
Carrying amount at the end of the period	1,636,618	1,081,507
Rollingstock - At Cost		
Carrying amount at the beginning of the period	12,087,690	13,314,412
Additions	5,441,220	2,546,166
Disposals	-	(46,647)
Reclassification/adjustments of assets	26,988	-
Depreciation	(3,245,371)	(3,726,241)
Carrying amount at the end of the period	14,310,527	12,087,690

Notes to the Financial Statements

For the year ended 30 June 2012

14. Property Plant and Equipment <i>(continued)</i>	2012 \$	2011 \$
Reconciliations		
Motor Vehicles - At Cost		
Carrying amount at the beginning of the period	306,609	468,725
Additions	3,790,086	8,000
Reclassification/adjustments of assets	(230,400)	-
Depreciation	(237,678)	(170,116)
Carrying amount at the end of the period	3,628,617	306,609
Capital Projects in Progress		
Carrying amount at the beginning of the period	16,823,440	13,825,697
Additions	53,689,302	26,651,421
Transfers out	(43,175,369)	(23,653,678)
Carrying amount at the end of the period	27,337,373	16,823,440
Total Property, Plant and Equipment net book value	58,614,485	41,716,546

15. Trade and other payables	2012 \$	2011 \$
Trade payables	2,555,761	6,038,940
Other trade payables	1,222,186	1,144,760
Accrued expenses	2,488,478	2,053,665
	6,266,425	9,237,365

The average credit period on purchase of goods and services is 11.3 days (2011: 15.2 days). The Company has financial risk management policies in place to ensure all payables are paid within the credit timeframe.

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 24.

→ **Notes to the Financial Statements**
For the year ended 30 June 2012

16. Employee benefits	2012 \$	2011 \$
Current		
Liability for annual leave	2,121,053	1,669,535
Liability for long-service leave	1,891,272	2,441,075
	4,012,325	4,110,610
Non-current		
Liability for annual leave	-	-
Liability for long-service leave	473,451	117,199
	473,451	117,199

17. Other liabilities	2012 \$	2011 \$
Current		
Derivative liability - cash flow hedges	211,603	-
Non-current		
Derivative liability - cash flow hedges	690,875	-

18. Share capital	2012 \$	2011 \$
Opening Balance - fully paid ordinary shares	119,929,000	81,865,000
Equity contributed during the year (i)	54,745,146	38,064,000
Closing Balance - fully paid ordinary shares	174,674,146	119,929,000

(i) 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 State Government funds for capital works programmes and operational expenditure of \$33,486,000 (2011: \$19,014,000)
2. Commonwealth Government funds for capital works programmes of \$21,259,146 (2011: \$19,050,000)

Notes to the Financial Statements

For the year ended 30 June 2012

19. Reserves

	2012 \$	2011 \$
<i>Cash flow hedge reserve</i>		
Opening Balance	-	-
Effective portion of changes in fair value of cash flow hedge	(765,444)	-
Tax effect arising on market valuation (i)	229,633	-
Closing Balance	(535,811)	-

The Company holds derivative financial instruments designated as cash flow hedges of future forecast capital and inventory purchases. The table above identifies the impact of cash flow hedges on equity during the year. The cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into for cash flow hedges.

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:

Year ended 30 June 2012

Segment	ABOVE RAIL (\$)	BELOW RAIL (\$)	TOTAL \$
External revenues	33,371,695	18,942,630	52,314,325
Inter-segment revenue	-	2,439,000	2,439,000
Interest revenue	1,197,840	1,150,865	2,348,705
Interest expense	-	-	-
Impairment	-	(31,749,528)	(31,749,528)
Depreciation and amortisation	(3,398,021)	(1,664,756)	(5,062,777)
Reportable segment profit / (loss) before income tax	(1,133,360)	(34,931,209)	(36,064,569)

20. Operating segments (continued)

Year ended 30 June 2012 (continued)

Segment	ABOVE RAIL (\$)	BELOW RAIL (\$)	TOTAL \$
Reportable segment assets	43,510,573	26,259,150	69,769,723
Add: cash and cash equivalents not allocable to segments			41,852,351
Total assets			111,622,074
Capital expenditure	19,642,114	34,047,188	53,689,302

Period ended 30 June 2011

Segment	ABOVE RAIL (\$)	BELOW RAIL (\$)	TOTAL \$
External revenues	32,688,208	12,866,629	45,554,837
Inter-segment revenue	-	2,367,791	2,367,791
Interest revenue	1,483,807	1,425,323	2,909,130
Interest expense	-	-	-
Impairment	-	(30,390,998)	(30,390,998)
Depreciation and amortisation	(3,872,252)	(1,684,051)	(5,556,303)
Reportable segment profit / (loss) before income tax	40,595	(27,909,658)	(27,869,063)
Reportable segment assets	28,303,104	29,446,802	57,749,906
Add: cash and cash equivalents not allocable to segments			37,767,530
Total assets			95,517,436
Capital expenditure	2,969,041	32,728,324	35,697,365

20. Operating segments (continued)

Major customers

Revenues from three parties represent approximately 57.6 % (2011: 57.7%) of total revenues as follows:

	2012	2011
- Party 1 (State Government - grant revenue - Below Rail)	18,775,000	14,549,000
- Party 2 (freight services - Above Rail)	6,030,389	5,955,504
- Party 3 (freight services - Above Rail)	5,276,993	5,697,826

Economic Dependency

The Company depends on the appropriations from the Tasmanian State Government to continue operating as a viable entity in carrying out its normal activities.

21. Dividends

No dividends were proposed or paid by the Company during either year.

22. Commitment for expenditure

	2012 \$	2011 \$
Capital expenditure commitments		
Above Rail	57,261,040	2,204,585
Below Rail	41,294,088	4,064,243
	98,555,128	6,268,828
Operating Leases		
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	964,484	658,518
Between one and five years	2,054,711	1,480,831
	3,019,195	2,139,349

The Company's operating leases relate to motor vehicles, office accommodation and sundry items of plant and equipment. The leases typically run for a period of 6 years with operating lease payments based on the terms of the underlying lease agreements.

During the year, an amount of \$819,530 (2011: \$495,893) was recognised as an expense in respect of operating leases.

→ **Notes to the Financial Statements**
For the year ended 30 June 2012

23. Reconciliation of cash flows from operating activities	2012 \$	2011 \$
Cash flows from operating activities		
Loss for the period	(36,294,202)	(27,869,063)
<i>Adjustments for:</i>		
Depreciation	5,062,777	5,556,303
Impairment	31,749,528	30,390,998
Revaluation of inventory	-	(7,137,107)
Tax expense relating to cash flow hedge reserve	229,633	-
Gain on disposal of property, plant and equipment	(46,046)	(182,950)
Operating profit before changes in working capital and provisions	701,690	758,181
- Increase/(Decrease) in payables	(2,970,940)	4,595,810
- Increase/(Decrease) in employee benefits	257,966	1,346,721
- Increase/(Decrease) in current tax asset	-	-
- (Increase)/Decrease in net deferred tax asset	-	-
- (Increase)/Decrease in receivables	1,847,684	(3,215,747)
- (Increase)/Decrease in inventories	3,167,472	(1,018,195)
Net Cash flows from operating activities	3,003,872	2,466,770

Notes to the Financial Statements

For the year ended 30 June 2012

24. 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 policies 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 policy only allows investment and cash holdings to be deposited with major Government approved Australian financial institutions. The Company's maximum exposure at the reporting date was:

	2012	2011
	\$	\$
Cash and cash equivalents (Note 9)	41,852,351	37,767,530
Trade and other receivables (Note 10)	4,503,315	6,350,999
Derivative assets - cash flow hedges (Note 12)	137,034	-
	46,492,700	44,118,529

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 operators 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.

	2012	2011
	\$	\$
The ageing of trade receivables at the reporting date was:		
Not past due	2,654,097	2,707,702
Past due 0-34 days	623,544	30,726
Past due 34-65 days	743	6,142
Past due more than 65 days	44,654	26,209
Total	3,323,038	2,770,779

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

24. 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:

	2012 \$	2011 \$
Non-derivative financial liabilities		
Trade and other payables - payable in 6 months or less	6,266,425	9,237,365
Derivative financial liabilities		
Forward exchange contracts in designated hedge accounting relationship		
- payable within 1 year	211,603	-
- payable between 1 year and 2 years	613,337	-
- payable between 2 year and 3 years	77,538	-
	902,478	-

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Company buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks.

Currency risk

The Company is exposed to currency risk via capital expenditures that are denominated in a currency other than the Australian Dollar (AUD). The currencies in which these transactions are primarily denominated are the United States Dollar (USD) and New Zealand Dollar (NZD). The Company uses forward exchange contracts to hedge its currency risk.

Notes to the Financial Statements

For the year ended 30 June 2012

24. Financial instruments (continued)

Exposure to currency risk

The Company's exposure to currency risk is summarised below:

	2012	
	USD	NZD
Trade payables	-	-
Forward exchange contracts	902,478	(137,034)
Net exposure	902,478	(137,034)

2011

	USD	NZD
Trade payables	-	-
Forward exchange contracts	-	-
Net exposure	-	-

The following significant exchange rates applied during the year:

	2012	
	Average	Reporting date spot rate
AUD : USD	1.0332	1.0075
AUD : NZD	1.2827	1.2757

2011

	Average	Reporting date spot rate
AUD : USD	n/a	n/a
AUD : NZD	n/a	n/a

24. Financial instruments (continued)

Sensitivity analysis

A strengthening (weakening) of the AUD, as indicated below, against the USD and NZD at 30 June would have increased (decreased) equity and profit and loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the reporting date. The analysis assumes that all other variables remain constant and ignores any impact of forecasted purchases.

	STRENGTHENING - IMPACT ON PROFIT AND LOSS, AND EQUITY	WEAKENING - IMPACT ON PROFIT AND LOSS, AND EQUITY
<hr/>		
30 June 2012		
USD (2% movement)	17,696	(18,418)
NZD (2% movement)	(2,687)	2,797
30 June 2011		
USD (2% movement)	-	-
NZD (2% movement)	-	-

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 in 100 basis points in interest rates would have increased or decreased the Company's profit and loss by \$489,346 (2011: \$377,675). There is no impact in 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.

Notes to the Financial Statements

For the year ended 30 June 2012

25. Related party transactions

Key management personnel compensation

The key management personnel compensation is as follows:	2012 \$	2011 \$
Short-term benefits	1,626,413	1,362,532
Other long-term benefits	58,086	22,057
Post-employment benefits	253,626	231,865
Termination benefits	-	-
	1,938,125	1,616,454

Mr David George is CEO of the Rail Co-operative Research Centre Limited. The Rail Cooperative Research Centre Limited was paid \$30,000 (2011: \$30,000) for theme participation contribution fees . Amount billed was based on normal market rates for such services and payable under normal payment terms.

Ultimate owner

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

26. Contingencies

Under the terms of the Lease from the Minister for Infrastructure, Energy and Resources for the Rail Corridor and associated infrastructure, the Company is responsible for remediation of any environmental obligations that may become apparent as a result of the Company's operations or past operations of the network. There were no environmental liabilities identified at balance date that would have a material effect on the Company's Financial Report at 30 June 2012. If significant environmental liabilities relating to past operations are identified in future, the Company would require financial support from the Tasmanian Government to fund the remediation.

27. 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 2012.

→ **Notes to the Financial Statements**
For the year ended 30 June 2012

Directors' Declaration

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 2012 and of its performance, for the financial year 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;
- (d) the directors have been given the declarations as set out in S295A of the *Corporations Act 2001* from the CEO and CFO for the financial year ended 30 June 2012.

Signed in accordance with a resolution of the directors:



Mr Robert Annells
Chairman

Dated at Launceston this 6th day of August 2012.

Independent Auditor's Report

To the Members of Tasmanian Railway Pty Ltd

Financial Report for the Year Ended 30 June 2012

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 2012, the statements of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Auditor's Opinion

In my opinion:

- (a) the Company's financial report is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of its financial position as at 30 June 2012 and its financial performance for the year ended on that date, and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a).

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 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 the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report 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 report. 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 Directors' preparation and fair presentation of the financial report 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.

Tasmanian Audit Office



E R De Santi
Deputy Auditor-General
Delegate of the Auditor-General

HOBART

6 August 2012

Locomotive Driver Terry Thomson retired in April 2012 after more than 50 years of service to the Tasmanian Rail Industry.



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