



# ANNUAL REPORT

2014/15



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**Tasmanian Railway Pty Limited**

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## ABOUT TASRAIL

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

Tasmanian Railway Pty Limited (TasRail) is a State-Owned Company established on 1 December 2009 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.

As a vertically integrated, short haul, freight rail business, TasRail 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 to TasRail late in 2009 from the Rail Management Branch within the then Department of Infrastructure, Energy and Resources.

This completed the amalgamation of the whole operating rail network within Tasmania, along with responsibility for the upgrading of the Below Rail and Above Rail elements of the business.



## ABOVE RAIL

The Above Rail business operates terminals, bulk handling and shiploading facilities and all train services in response to customer requirements. It is also responsible for maintaining and operating the rollingstock fleet.



- Freight rail is a viable alternative to road transport. By providing safe, efficient and sustainable freight solutions, TasRail helps to create a more competitive freight market, which in turn leads to lower freight costs for Tasmanian business and industry and consumers.

Similar to the Tasmanian road network, the rail network is a critical piece of infrastructure that requires ongoing funding from the State Government to ensure that it is maintained to an appropriate standard. The investment generates substantial savings to the State in the form of avoided road maintenance costs, avoided road accident costs, environmental savings and reduced operating costs for business and industry.

The Australian Government provides funding for Below Rail infrastructure renewals and upgrades. This investment allows fundamental rail efficiencies to be captured by the Tasmanian freight system.



## BELOW RAIL

Below Rail operations are responsible for maintaining and upgrading the railway network and the supporting infrastructure such as bridges, culverts, drainage and formation, level crossings, signals and communications and for the safe operation and authorised access of the network.

# STATEWIDE CONNECTIVITY

TasRail's freight terminals are strategically located across major freight corridors, offering customers an improved range of freight logistics services and seamless and direct links to the State's major ports.



**George Town:** The new \$7 million facility is expected to be operational by September 2015. It is a well designed multi-modal terminal located in the heart of the Bell Bay Major Industrial Zone and it will be pivotal to TasRail's capacity to attract new intermodal freight volumes.



**Burnie:** The \$12 million Burnie Optimisation Project will create a high productivity transport link for all freight users within the port. The design includes a direct interface between the railhead, road and port and provides for a substantial increase in rail terminal capacity that will also enable TasRail to transact with multiple customers. The project commenced in January 2015 and is scheduled for completion during November 2015.



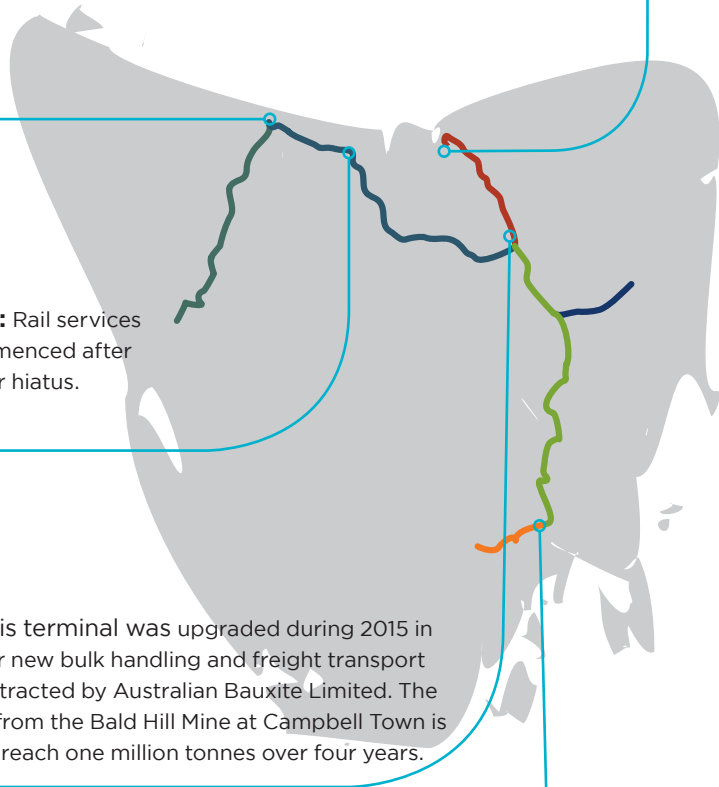
**Devonport:** Rail services have recommenced after an eight year hiatus.



**Conara:** This terminal was upgraded during 2015 in readiness for new bulk handling and freight transport services contracted by Australian Bauxite Limited. The freight task from the Bald Hill Mine at Campbell Town is expected to reach one million tonnes over four years.



**Brighton:** The Transport Hub became fully operational from 1 July 2014 following TasRail's relocation from the Macquarie Point terminal.



Map 1

## THE OPERATIONAL RAIL NETWORK

- The South Line runs approximately 175 kilometres from the Transport Hub at Brighton to Western Junction.
- The Derwent Valley Line is approximately 71 kilometres from the Bridgewater Junction to the Florentine Rail Yard west of Maydena. The section of line between Boyer and Maydena is currently non-operational.
- The Melba Line is approximately 130 kilometres running from the Port of Burnie to Melba Flats
- The Western Line commencing at the East Tamar Junction and runs approximately 176 kilometres to Burnie via Western Junction. The section of the line that runs between Burnie and Wiltshire is currently non-operational.
- The Bell Bay Line runs from the East Tamar Junction to the Port of Bell Bay for approximately 57 kilometres.
- The Fingal Line runs for approximately 55 kilometres from Conara Junction to Fingal.

# RESULTS

Table 1

Performance Measure	Target 2014/15	Actual Result 2014/15	Target 2015/16
Recordable Injury Frequency Rate <sup>1</sup>	13.3	24.8	12.7
Freight Availability (General Intermodal)	98 per cent	97 per cent	98 per cent
Mainline Derailments	Less than 2	2	Less than 2
Customer Revenue	\$34.3 million	\$34.2 million	\$40.5 million
Capital Spend <sup>2</sup>	\$78.3 million	\$38.0 million	\$48.9 million
EBITDA (consolidated)			
After Tasmanian Government Below Rail Infrastructure Contribution	(\$1.4) million	\$0.0 million	\$0.1 million
Below Rail Infrastructure cost (Per track kilometre)	New target		\$20.1 thousand
Above Rail Net Profit (Loss)	New target		(\$4.1) million

**Table 1 Notes:**

1. Recordable Injury Frequency Rate is defined as the sum of Lost Time Injuries, Suitable Duties and Medical Treatment Injuries per million person work hours.
2. Target Result for Capital Spend assumed \$119.6 million Infrastructure Investment Program funding for Tasmania's Rail Freight Revitalisation Program would commence from 2014/15 but is now scheduled to commence from 2015/16; finalisation of new locomotive and wagon fleet has not yet occurred.



Ben George was a member of the thermit welding team before being promoted to the role of Infrastructure Asset Inspector in August 2014.



Lester Jones (Freight Services) is an experienced Train Driver who started his career with the State's Railway as a wagon maintainer in 2000. He attained his Train Driving qualification in 2007.

## 2014/15 ACHIEVEMENTS AND CHALLENGES

- Delivered a better than planned EBITDA result, representing an \$1.4 million improvement against budget and in the face of a \$3 million impact from two train derailments.
- Sustained a marked improvement in freight availability performance achieving 97 per cent, delivering 99.97 per cent of all freight consignments without incident.
- Increased overall freight volumes by 3 per cent, despite a loss of some contracted volumes due to a downturn in mining activity.
- Achieved 232 consecutive days without a lost time injury, but a disappointing safety performance overall with the recordable injury frequency rate increasing to 24.8.
- Experienced an increase in public incidents at level crossings, including one vehicle collision, although none resulted in serious physical injury.
- Successfully managed the single, largest-ever change to rail freight operations in the State with the implementation of a new Advanced Network Control System (ANCS) across the network in January 2015.
- Executed new commercial agreements with major customers, securing 98 per cent of TasRail's baseload freight volumes under long-term contracts.
- Successfully tendered for the land transport freight task for Australian Bauxite Limited, establishing freight and logistics services ahead of the start-up of a new mine at Campbell Town.
- Commenced capital works on the Burnie Port Optimisation Project.
- Completed construction of the new George Town Freight Terminal, on time, without incident and within budget.
- Recommended terminal operations at Devonport after an absence of eight years.
- Completed the development, construction, testing and commissioning of the innovative Logtainers. This innovation provides a safer and more efficient solution for the railing of logs, as well as a high level of interoperability and up to a 12 per cent increase in productivity.
- Received confirmation of the first tranche of \$119.6 million of Infrastructure Investment Funding by the Australian and Tasmanian Governments for the Tasmanian Freight Rail Revitalisation Program to 30 June 2019. A commitment to a second tranche of funding was also secured.
- Restructured the Freight Services, Asset Management and Infrastructure Maintenance Divisions of the Company to increase efficiencies and optimise performance. Overall 26 positions were made redundant. TasRail wishes to thank those employees who retired or left the Company during 2014/15. Your contribution to the business is appreciated.
- The Legislative Council - Government Administrative Committee "A" - resolved on 28 May 2015 to commence an Inquiry into the financial sustainability of TasRail. Public hearings are expected to be held during the second half of 2015.
- Readied the business to deliver a viable alternative to road transport and an increased share of the contestable freight market on major freight corridors.



# CORPORATE INTENTIONS - THE NEXT 12 MONTHS

## 1. Strategic directions of the business:

### Vision: A world class, vertically integrated, short haul freight railway.

A number of significant developments will conclude during the 2015/16 financial year that will provide TasRail with reliable and sustainable statewide connectivity to all major ports:

- The commencement of operations at the new George Town Freight Terminal;
- The completion of the Burnie Port Optimisation Project;
- The expansion of rail freight services into Devonport; and
- The commencement of the four year Tasmanian Freight Rail Revitalisation Program, jointly funded by the Australian and Tasmanian Governments.

These major initiatives will enable TasRail to offer freight and logistics services to a broader number of new customers and to expand its service offering and value proposition for existing customers.

## 2. Key initiatives:

### 2.1 Working towards zero harm.

The implementation of a targeted program designed to move TasRail closer towards zero harm will be a priority. This initiative will comprise three major strategies:

- Derailment Prevention
- Injury Prevention
- Safety Leadership Program

### 2.2 Expanding the competitiveness of rail.

This will be achieved by:

- Greater service capacity delivered through the wagon efficiency plan, the utilisation of smarter locomotive deployment techniques and the maximisation of trailing capacity through major freight corridors;
- Increased reliability in the delivery of freight rail services achieved through improved terminal handling and the elimination of unplanned service delays such as track access conflicts and Temporary Speed Restrictions;
- Proficient terminal operations through defined operating plans and achievement of consistently high levels of efficiency and safety;
- Innovation in business-to-business services by partnering with the private sector to develop customer-specific supply chain solutions and operational efficiencies.



## 2.3 Enhancing the value proposition of rail.

To optimise the value of rail, TasRail will:

- Strengthen key partnerships to identify and deliver further productivity improvements in integrated freight logistics services resulting in cost efficient operations;
- Maximise supply chain value through closely integrated alliances with intermodal customers while continuing to develop the Pit-to-Port service model;
- Promote quality service improvements by generating a shift towards a customer-centric culture throughout the organisation.

## 2.4 Improving TasRail's ability to maintain a 'fit for purpose' network.

TasRail strives to operate and maintain a safe and reliable network to achieve optimum service levels at the lowest possible cost. With Infrastructure Investment funding from the Australian and Tasmanian Governments secured, a series of targeted works packages will be deployed over the four years to June 2019. These packages will enable TasRail to:

- Address the most critical single points of failure through discrete projects designed to reduce known points of significant deterioration;
- Renew near life-expired sections of track;
- Install new sleepers and new rail across priority sections of the network;

## 2.5 Growing organisational capability.

Ensuring that the organisation has the right people, skills and systems is key to TasRail's capacity to deliver on commitments to its customers, its shareholders and the broader community. An organisational development program is underway to address:

- The development of leaders at all levels with increased accountability to deliver performance targets and business goals;
- The development of the capabilities required to create the required customer-centric culture that will competitively meet the expectations of customers;
- Continuity of workforce training and succession planning.

## 3. New business growth

The targets set out on page 4 recognise TasRail's growing confidence in its commercial value and its position in the freight services industry.

Through a combination of long term contracts and statewide connectivity through new and optimised rail freight terminals, TasRail expects to see continued growth in rail freight over the coming years.

While TasRail has executed a number of modernised contracts with existing and new customers, it must be acknowledged that TasRail's revenue remains largely a function of economic activity in Tasmania, and as such is linked to the continuing growth of the state.

[See a short video here - Bauxite Train along side Glenwood Road](#)



## CHAIRMAN'S FOREWORD



*Undeniably, TasRail is performing better than the five year plan had anticipated, and this was again evident in the 2014/15 EBITDA result that was \$1.4 million better than budget.*

The end of 2014/15 financial year marked the completion of an ambitious initial five year development program and the start of TasRail's transition to a modern freight and logistics business. TasRail is determined to grow its freight market share, and in the process, provide a viable freight alternative for its customers and secure a sustainable future for the business.

Undeniably, TasRail is performing better than the five year plan had anticipated, and this was again evident in the 2014/15 EBITDA result that was \$1.4 million better than budget.

The turnaround in key performance measures, including the condition of the network and reliability of services, has seen a return of customer confidence in rail that is best demonstrated by the amount of freight that is now being hauled on rail.

That TasRail was able to absorb the loss of significant contracted bulk volumes yet still achieve a three per cent increase in total freight volumes for 2014/15 is an outstanding result. That the Company has delivered overall freight growth of 11 per cent during the Rail Recovery phase is exceptional and testament to the effort that has been expended by the workforce to date.

It is important to recognise that these results have been made possible because of the substantial capital committed by the Tasmanian Government to replace life expired assets and maintain the Below Rail infrastructure; and through Australian Government infrastructure funding to address the most urgent of the inherited maintenance and renewals deficit. These investments have helped to level the playing field for rail by improving the safety and reliability of the network to a standard better able to compete with road transport for the contestable share of the freight market. While the condition of the track is now vastly better than when TasRail was established, there is more to do to ensure the whole of the network reaches the desired standard.

The joint announcement in May 2015 by the State and Federal Governments, confirming a total of \$119.6 million will be made available over the next four years for the Tasmanian Freight Rail Revitalisation Program was very pleasing. This will allow TasRail to continue with the delivery of a prioritised track upgrade program. Importantly, the certainty over track funding enables TasRail to more confidently commit to future growth opportunities with increased potential to deliver a cash positive result by the Above Rail business.

TasRail is serious about its role to service industry through the provision of competitive and efficient freight services.

This extends to providing the necessary infrastructure and haulage capacity to support start-up operations for new customers with potential for long term business relationships with TasRail, as well as significant economic uplift potential for regional areas. However, the lead times for upgrade of rail infrastructure and/or securing of additional haulage capacity inevitably requires TasRail to invest resources in advance of a customer's anticipated commencement date. This exposes the business to the risk of something occurring in the interim that either delays or frustrates the start-up of operations, with consequences for TasRail's bottom line in the year that these delays occur.

Despite this risk, the Board is determined to be supportive of such start-up activity for the benefit of Tasmania. Venture Minerals is one example where this has occurred. The delayed start to services for Australian Bauxite Limited is another.

Similarly, TasRail's base load bulk freight customers will to a large degree always be vulnerable to the volatility of global commodity markets and the rise and fall in the value of the Australian dollar. It's therefore imperative that TasRail's operating capacity, costs and structures are streamlined but nimble enough to respond to the cyclic nature of these industries.

The management team worked diligently throughout 2014/15 to ensure the Company maintained the right balance of skills and capacity to competitively deliver TasRail's current freight task, but remain positioned to deliver incremental and new business opportunities as they are identified. This is not an easy task but the Board is satisfied that the right balance has been achieved.

I would like to congratulate Damien White and his team for another year of solid performance.

I must also thank my fellow Directors for their individual and collective contributions throughout the year that are of great value to the Company and to me personally.

Finally, I wish to thank TasRail's Shareholder Members for their continued support of TasRail and their commitment to the future of freight rail as an increasingly relevant and integral component of the Tasmanian Freight System.



Robert Annells PSM  
**Chairman**

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Member, Tasmanian Railway Pty Limited  
Level 1 Franklin Square  
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Hon. Peter Gutwein MP  
Treasurer  
Member, Tasmanian Railway Pty Limited  
Level 9 Executive Buildings  
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Dear Shareholder Members

#### **TASRAIL ANNUAL REPORT 2014/15**

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* I hereby submit for your information and presentation to the Parliament, the Annual Report of Tasmanian Railway Pty Limited covering the period 1 July 2014 to 30 June 2015.

Signed in accordance with a resolution of Directors.

Yours sincerely



**Bob Annells PSM**  
Chairman

15 October 2015



## CEO REPORT



*The new generation TR locomotives are symbolic of the resurgence of freight rail in Tasmania, and have significantly increased operating efficiencies, haulage capacity and service reliability.*

It was a challenging year on the revenue front, but the cost outcomes from TasRail's new assets were in some cases greater than anticipated.

Unplanned costs associated with two derailments meant that the EBITDA result, although higher than budget, could have been far better. The Colebrook derailment in November was particularly disappointing because it should not have occurred. The impact to our bottom line was significant, but if not for TasRail's actions to proactively work with customers to provide alternative transport and to resolve claims swiftly, the reputational damage caused by this incident could have been devastating for TasRail. Two separate, independent investigations into the Colebrook incident confirmed the derailment was not caused by the condition of the track or the rollingstock but was the direct result of a train handling error and excessive speed. With the implementation of TasRail's new Advanced Network Control System (ANCS), the risk of a similar derailment occurring should now be eliminated. The support shown to TasRail immediately following this incident was very encouraging and I sincerely thank our customers for their understanding and continued support of rail.

### Operating Performance

With the delivery and commissioning of the new rollingstock complete, TasRail's operating arrangements were redesigned during the year so as to fully exploit the benefits of the new rollingstock and to position TasRail to be responsive to opportunities for the conversion of road freight to rail. The new generation TR locomotives are symbolic

of the resurgence of freight rail in Tasmania, and have significantly increased operating efficiencies, haulage capacity and service reliability. The performance of the new wagon fleet has been outstanding, delivering increased capacity, improved train marshalling and loading performance. The new cement wagons have all but eliminated product spillage delivering environmental benefit and savings in the order of \$0.5 million in clean-up costs. Consolidation of new asset maintenance plans delivered better operating performance, with unplanned maintenance levels falling to around 30 per cent over the year and realising a 23 per cent reduction in operating costs. Fuel efficiency, asset availability and reliability performance all improved considerably.



*Train Controller James Miller (left) and Network Access Manager Garry Cummings (right) review daily Train Control data.*



## Customer Service

In parallel with improvements in operating performance, we've worked to ensure that TasRail's pricing is competitive and we've continued to think outside the square to develop transport and logistics solutions that create additional value for our customers. Although TasRail is in the early stages of its journey to create a true 'customer-centric' culture, I've been encouraged by the early progress made to shift the organisation from what was largely an engineering and operationally focussed rail organisation. Average freight availability for TasRail's premium intermodal service is vastly improved at 97 per cent, a level of service previously unheard of in Tasmanian rail and at least equal to a similar service offering anywhere, be it on road or rail. Freight availability across bulk services was consistently high throughout the year.

TasRail's terminal capacity took a big leap forward with the commencement of the Burnie Port Optimisation Project late last year and the construction of a new terminal at George Town completed in May. The investment in the development of these strategically located terminals will be a catalyst to the conversion of more freight to rail, enabling TasRail to offer customers expanded service offerings including state-wide connectivity and 'end-to-end' logistics solutions. Our network of freight terminals are literally TasRail's 'shop front' for customers and it was particularly pleasing that we resumed intermodal rail services into Devonport for a returning customer after an absence of eight years.

Another highlight was the work to develop and implement a fully integrated, mine-to-port logistics solution for a greenfield mine at Campbell Town. In a relatively short period of time, TasRail had mobilised all of the resources and equipment required and was service ready ahead of schedule. Although the start-up date was delayed due to weather related issues affecting the customer, the result showcases TasRail's enhanced capability and commitment to enabling economic development.

## People

Both the Above Rail and Below Rail divisions were subject to major restructures during the year. The Above Rail changes were necessitated by the indefinite deferment of the contract for the start-up of a substantial new business and the suspension of services to support two West Coast customers, as well as a consolidation of our rollingstock maintenance activities. The review of resourcing for Below Rail infrastructure maintenance activities was undertaken to optimise efficiencies and to cater for a planned reduction in the track maintenance budget reflecting the previous investments made. Every effort was made to minimise the impact on employees, but where redundancies were inevitable, staff were provided with appropriate support throughout the transition period.



Steve McNamara (left) of Toll Tasmania pictured here with Martin Thorpe (right) at the Brighton Transport Hub. Martin is TasRail's Business Development Manager - Intermodal Freight.



It would be remiss not to acknowledge the contribution of those employees who left the business during the course of the year, including those who took up the option of voluntary redundancy. On behalf of TasRail, I would like to take this opportunity to publicly thank them all for their commitment and contribution to the rail industry.

Throughout the year, TasRail continued its focus on organisational development. A core component of TasRail's leadership program is to create a continuous improvement ethos right across the organisation. During 2014/15 Leaders were trained in a suite of techniques that will assist them to identify smarter and more efficient ways to work, as well as developing and refining leadership skills to develop better relationships with our staff.

TasRail also implemented a new employee performance appraisal and development procedure for all leaders with the intent to roll this out across the organisation in due course. In terms of Industrial Relations, 2014/15 was another relatively harmonious year. A new Enterprise Agreement was achieved for the Cement Team and we commenced negotiations for a new EA for Bulk Handlers. Negotiations for a new General EA will commence early in 2015/16.



*Rail Operator Chris Baric (Freight Services) at work in the Brighton Quick Fix.*



*Matthew Patten (Freight Services) played a key role in the establishment of operations at Conara to support the start-up of the new bauxite service and in the development of training documentation and operating procedures for the new Logtainers.*

## Safety

Notwithstanding the significant efforts and resources that have been devoted to improving safety and eliminating incidents and injuries over the past five years, TasRail's overall safety performance has effectively plateaued. This is not acceptable and requires urgent re-examination of TasRail's safety strategies and an increased commitment to zero harm from everyone working at TasRail. On a positive note, the introduction of the new ANCS has improved the safety of train operations and track maintenance staff on the network. Post commissioning enhancements are continuing to improve the operation of the system, particularly as it applies in freight terminals and operating yards.

## Capital Investment

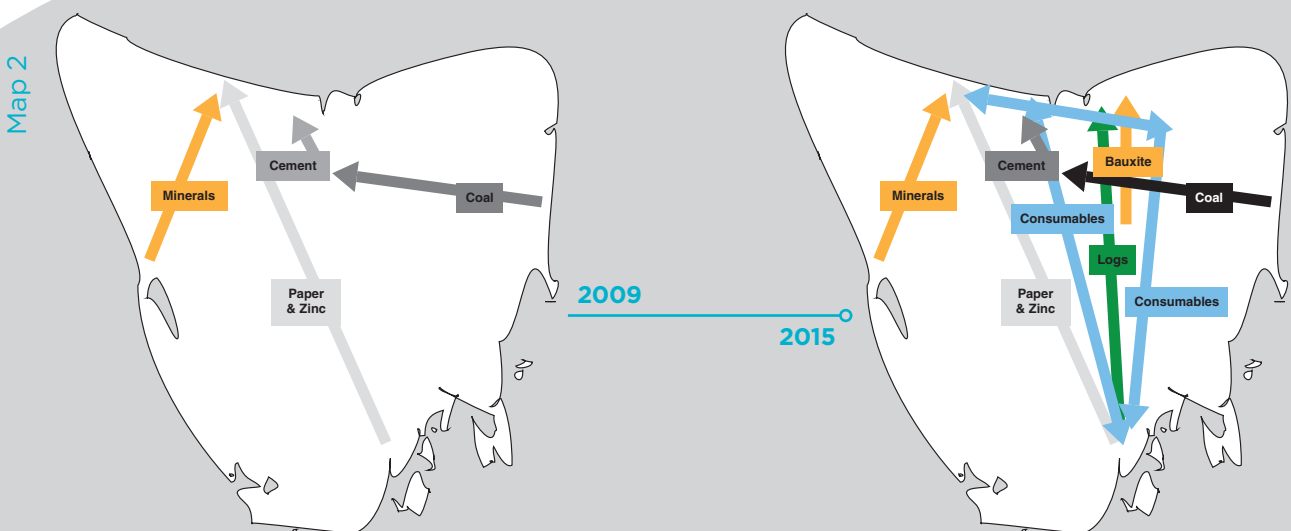
The delivery of capital projects has been a major focus for TasRail over much of the past five years, but this chapter is largely drawing to a close as the business shifts its focus to operational excellence and the pursuit of new freight volumes. The confirmation of Infrastructure Investment Funding from the Australian and Tasmanian Governments was very welcome news, and will see TasRail embark on a four year program to upgrade priority sections of track and the selected renewal of rail and sleepers on major freight corridors.

## Outlook

TasRail has made enormous strides to restore customer confidence in rail and to increase its share of the contestable freight market. Looking back to 2009 when the Company was established and comparing it to TasRail today, the quantum of change that has occurred is far more compelling than the picture represented by the annual financial accounts. Most importantly, TasRail is now equipped and ready to launch into a new era that will see it pursue substantial growth in market share, and deliver increased value to its customers, its shareholders and the broader Tasmanian community.

Damien White  
**Chief Executive Officer**

## TasRail's Freight Task





# EXECUTIVE TEAM

as at 30 June 2015



Chief Executive Officer

**Damien White**



Chief Operating Officer

**Stephen Kerrison**



Company Secretary/  
Chief Financial Officer

**Steven Dietrich**

Finance/Shared Services  
Business Development  
Procurement  
Information Technology  
Land and Property



General Manager  
Asset Management

**Jonathan Drew**

Rollingstock  
Infrastructure  
Capital Projects



General Manager  
Freight Services

**George Pitt**

Train Operations  
Train Control  
Terminals



Executive Manager  
Safety

**Michael Halaby**

Health and Safety  
Risk Management

Human Resources  
Manager

**Jim Burden**

Corporate Relations  
Manager

**Jennifer Jarvis**

Commercial &  
Strategy Manager

**Shannon Cox**

# PERFORMANCE DATA

## People and Safety



**Recordable Injury Frequency Rate**



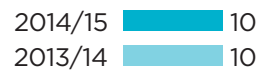
**Number of Lost Time Injuries**



**Lost Time Injury Frequency Rate**



**Number of Medical Treatment/Suitable Duty Injuries**

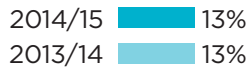


**Safeworking Irregularities**

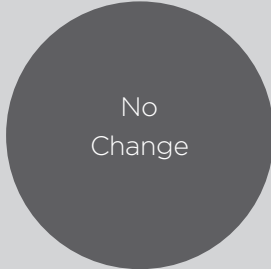




**Number of Employees (FTE)**



**Staff Turnover Rate**

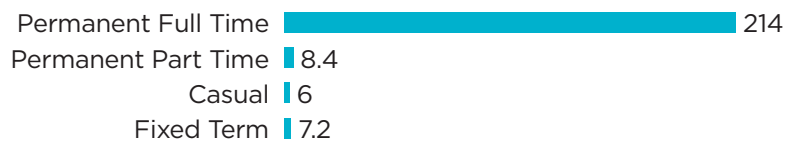


*Robyn Laphorne - Planner (Asset Management) is responsible for vegetation management across the rail corridor.*



*Julian Long - Infrastructure Delivery Supervisor East (Asset Management) is responsible for the management of track workers at Brighton and Launceston and for all tamping works across the network.*

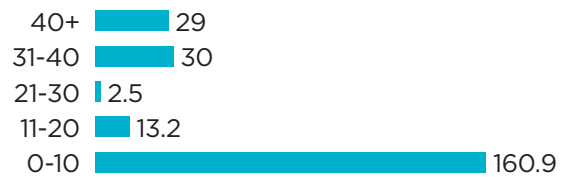
**Employment Status Profile - FTE**



**Gender**



**Years of Service**



**Division Profile\***

\*Includes Capital



## ABOVE RAIL



### The commercial arm of TasRail

The Above Rail business provides rail and logistics services to the market.

Like any other commercial enterprise, the Above Rail business is focussed on delivering financial returns and building a reputation for service excellence.

The resurgence of freight rail in Tasmania continued to advance in 2014/15 with TasRail now hauling a total of 68 per cent of all freight on the Brighton to Burnie corridor, and 50 per cent of all contestable freight on corridors covered by the rail system.

The combination of investment in new assets combined with a resolute commitment to customer service and improved condition and performance of the Below Rail network has led to the progressive restoration of customer confidence in rail freight. Testament to this is the signing of new, long-term rail haulage contracts by all of TasRail's major customers during the reporting period and another strong performance that saw overall freight volumes increase by a further three per cent for 2014/15. However, performance across the bulk and intermodal sectors was variable. The loss of mineral concentrate volumes from two West Coast customers represented 10 per cent of TasRail's total bulk volumes. This was offset by increases in coal, cement and paper volumes. A number of new and returning commodities were also attracted to rail during the reporting period. These include grains, flour and beverages on the Burnie to Launceston corridor, and scrap metal on the Brighton to Bell Bay corridor.



TasRail pursued the opportunity to re-start rail operations into Devonport, achieving a resumption of services after an absence of eight years. This terminal is expected to become increasingly important for TasRail and its customer, particularly given the customer's announced investment in new ships.

General intermodal volumes on the Brighton to Burnie corridor also fluctuated, partly attributed to a softening market and a change in the haulage patterns for zinc. The major derailment at Colebrook during November was undoubtedly a setback. Notwithstanding the disappointment of this incident that was confirmed to be caused by operator error and excessive speed and not the condition of the track or the assets, TasRail achieved the safe delivery of 99.97 per cent of all freight consignments without incident for the year.

Log volumes were down slightly compared to the previous year but overall remain fairly consistent. Working in partnership with Forestry Tasmania and SFM, TasRail has been able to demonstrate the

advantages of rail as a safe and efficient alternative transport provider of choice for the forestry sector. The ambition to attract further log volumes has been considerably enhanced with the April commissioning of 40 purpose built Logtainers (log cradles that can haul containers or logs on both trains and trucks). The Logtainers are hailed by the industry as an innovation that delivers superior loading/unloading efficiencies at reduced risk and increased payload compared to current operational methods. The Logtainer frame has forklift pockets that provide for easier and safer lifting on and off the train. The units also provide TasRail with the flexibility to utilise the backload train journey to haul other containerised freight because the Logtainer frames are fitted with twist locks to suit general intermodal wagons. The Logtainer units were designed and manufactured by Graeme Elphinstone at Triabunna and funded by a grant under the Australian Government's Tasmanian Jobs and Growth Plan.



Launceston based Rail Operator Josh Barnett (Freight Services) stows the strap of a Logtainer.

A significant new business opportunity came to fruition in 2014/15 with TasRail ready to commence services for Australian Bauxite Limited (ABx) ahead of the anticipated start-up date. In late 2014 TasRail successfully tendered to supply a total mine to port transport solution to ABx for its Bald Hill mine at Campbell Town. Under contractual agreement, TasRail is responsible for all logistical aspects from the loading of product at the mine right through to railing the containerised product direct to the Port of Bell Bay. This necessarily involves TasRail procuring and managing road haulage to and from the mine. The truck drivers are also contracted to load bauxite into containers at the mine, operate lifting machinery to direct load the containers onto the train at Conara, and then unload the returned containers from the train at Conara ready for transport to the mine. The first bauxite train service operated in May. Railed bauxite volumes were less than forecast to 30 June 2015, due to the customer experiencing production delays, but over the expected four year life of the mine, total volumes will be in the order of one million tonnes.

TasRail already operates mine to port solutions for a number of its bulk customers. During the reporting period TasRail's Business Development team continued to look at other integration opportunities for its existing and potential new customers that further increase the value proposition of rail to business and industry.

The announced expansion of the Tasmanian Freight Equalisation Scheme is also expected to create new opportunities for TasRail, with a forecast increase in intermodal freight movements across the State's major freight corridors and the containerisation of more products. TasRail is actively working with the broader business and industry sectors to identify new volumes for rail and to develop competitive proposals for potential new customers.



*Brighton based Rail Operator Scott Williams (Freight Services) confirms freight consignment details at Boyer with Andrew Grubb of Norske Skog.*





## ROLLINGSTOCK PERFORMANCE

The performance of TasRail's new rollingstock fleet has been a game changer for the business, delivering substantially improved safety, productivity and reliability and at reduced operating cost with improved fuel efficiency. Trailing tonnage capacity per locomotive has doubled, compared to the older fleet.

Delivery of the entire locomotive fleet was completed in July 2014. As is typical with the commissioning of assets of this scale and complexity, the new TR class locomotives have experienced a relatively small number of 'teething' issues since entering full service. The supplier has been very responsive in identifying and addressing any faults or failures, including through the redesign, testing and proving of modifications to components, the retrofitting of new components across the full fleet and by working with TasRail to proactively prevent any future issues. Any identified issues have been promptly and thoroughly assessed and remedied at the cost of the supplier as per the terms and conditions of the warranty. Final acceptance of the locomotives will not take place until such time as TasRail is satisfied with the sustained performance of the fleet and has determined that the supplier has complied with all of the contractual terms and conditions.

The performance of the new wagon fleet has exceeded expectations.



*Jarrod Cook (Freight Services) attained his Train Driver qualification in November, after beginning his career with TasRail as a Rail Operator.*



### THE FLEET:

- 17 TR Class Locomotives
- 54 ore wagons (TOMY)
- 17 coal wagons (THGHY)
- 18 cement wagons (THFY)
- 40 logtainers (RBL)
- 19 log wagons (FEP)
- 120 intermodal wagons (118 TQAY and 2 TQBY)
- 28 legacy intermodal wagons (QLE - dedicated to bauxite haulage)
- 1 Shiploader

*Some of the older rollingstock fleet is being retained for new business and incremental growth opportunities - these include a number of DQ class locomotives, 18 IB wagons and 15 TQMF wagons.*

# PERFORMANCE DATA

## Above Rail



### Customer Revenue

*Reflects the loss of bulk and shiploading volumes as a result of mine closures*



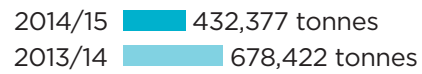
### TOTAL Volumes (NTKs)

*The reduction in mineral concentrates, forestry and intermodal was offset by a strong performance in coal, cement and paper. Includes the start-up of bauxite.*



### TOTAL Shiploading Volumes (tonnes)

*Direct result of mine closures*



### Freight Availability

*Significant improvement over previous year*





**TOTAL number of Intermodal train services  
(includes logs, paper and containerised freight)**

*TasRail's total intermodal freight volumes increased by 3 per cent overall for 2014/15, but the number of services required to haul this freight fell by 6 per cent compared to the previous year achieved by operational efficiencies and the superior performance and haulage capacity of the new rollingstock fleet.*

**1,804**  
services

**TOTAL number of Bulk train services  
(includes cement, coal, minerals, bauxite)**

*The total number of bulk services fell by 6 per cent for 2014/15 compared to 2013/14. The reduction in services is predominantly the result of mine closures and the consequential loss of volumes from the West Coast. Operational efficiencies and the introduction of the new rollingstock is also a factor that contributed to efficiency gains including through increased payload across all bulk services.*

**4,564**  
services





## TOTAL FREIGHT TASK BY COMMODITY

Table 2

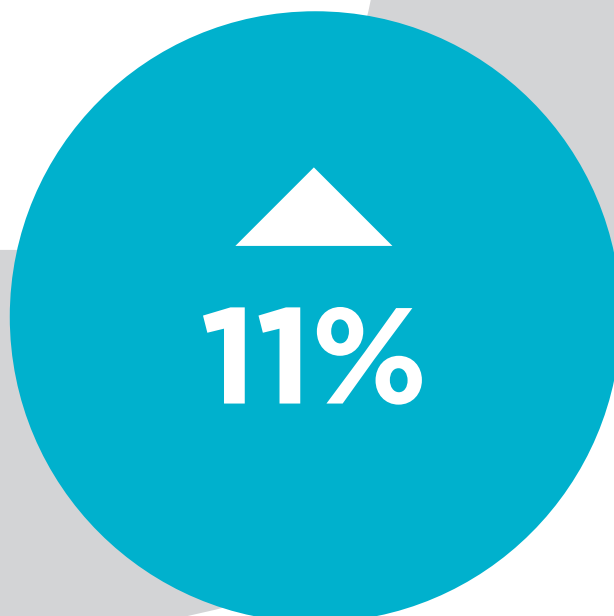
Commodity Type	Total Customer NTKs hauled 2014/15	Total Customer NTKs hauled 2013/14	Change in Performance
Coal	30,185,320	24,037,138	▲ 26%
Cement	26,396,545	25,142,757	▲ 5%
Mineral Concentrates	27,066,805	30,718,811	▼ 12%
Bauxite	150,333		New Business
Logs	19,556,245	21,230,883	▼ 8%
Intermodal - General	195,930,488	210,580,369	▼ 7%
Intermodal - Paper	120,047,104	95,310,942	▲ 26%
<b>TOTAL</b>	<b>419,332,840</b>	<b>407,020,900</b>	▲ 3%

## 2014/15 TOTAL FREIGHT TASK

Table 3

Year	Total Customer NTK Railed	Growth
2009/10	<b>379,243,582</b> <i>Annualised</i>	First Year
2010/11	<b>391,002,351</b>	▲ 3%
2011/12	<b>366,019,860</b>	6% ▼
2012/13	<b>415,591,123</b>	▲ 14%
2013/14	<b>407,020,900</b>	2% ▼
2014/15	<b>419,332,840</b>	▲ 3%

FREIGHT GROWTH





## BELOW RAIL



The infrastructure maintenance division of TasRail

Independent analysis conducted by leading infrastructure consultants pitt&sherry has confirmed the social, economic and environmental value generated by the availability of freight rail in Tasmania is significantly higher than the State's contribution to maintaining the Below Rail infrastructure.

It is widely acknowledged that just like the road network, rail infrastructure cannot generate a profit and will always require an annual Below Rail Infrastructure Contribution (BRIC) from the Tasmanian Government. The BRIC is essential to ensure these strategic assets are maintained to an appropriate standard and to avoid the problems of the past where the infrastructure was allowed to deteriorate to the point that it was no longer able to support safe or reliable freight operations. Under TasRail, the amount of BRIC provided has progressively reduced. The forecast cost to maintain the rail network in future years is higher than the BRIC allocated to rail in the Forward Estimates. This shortfall is expected to be addressed through redirection of future profits generated by the Above Rail profits.

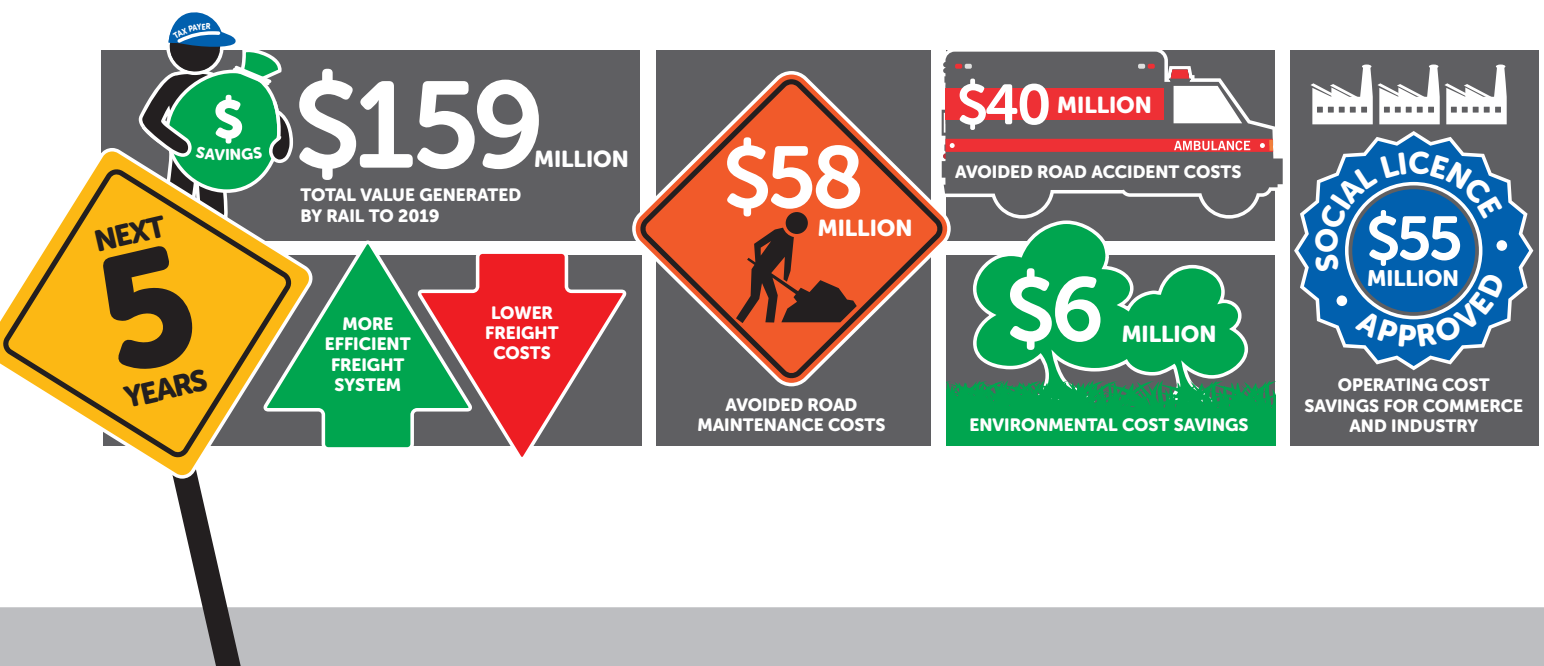
Over the past five years, TasRail has achieved substantial improvements in the condition of the network as the benefits of previous capital investment programs and a more proactive approach to asset management are realised. This amelioration has helped restore customer confidence in the safety and reliability of rail and enabled TasRail to pursue growth opportunities.



TasRail directly contributes to the cost of annual Below Rail maintenance through the payment of access fees by the Above Rail business division for its use of the network. Access fees paid by TasRail are set in accordance with the Transitional Access Regime as determined by the State Government.

Independent analysis conducted by leading infrastructure consultants pitt&sherry has confirmed that the use of rail rather than road to transport freight delivered approximately \$26 million of value to the State in 2013/14 by way of avoided road maintenance costs; avoided road accident costs; environmental savings and reduced operating costs for business and industry. Taking into account the \$16.57 million BRIC from the State Government in the same year, that equates to a net benefit (dividend) of nearly \$10 million. pitt&sherry predicts these savings to continue to increase, reaching an estimated \$159 million over the five years to 2019.

At the heart of the analysis is the confirmation that rail is the most efficient freight mode on major freight corridors as well as for heavy freight movements over short and medium distances. These findings add force to the importance and value of freight rail to Tasmania.



pitt&sherry noted that its report did not include analysis of a number of as yet unquantified benefits of rail including the value of:

- o Savings that result from the interconnectivity that exists between freight rail and a number of mining and manufacturing industries;
- o Savings from avoided road upgrade costs – i.e. the funding that would otherwise be required to enable ‘off network’ road systems to carry rail freight;
- o Logistical savings that flow to customers due to freight rail’s economy of scale – i.e. loading a single train with large volumes of freight as opposed to loading multiple trucks for the same freight task;
- o Avoided traffic decongestion at key points across major freight corridors.



**The Below Rail business is focussed on delivering a ‘fit for purpose’ network at the lowest possible cost.**

The task to achieve this and arrest the inexorable decline in network condition that will occur over time is extremely challenging and requires a vigilant inspection regime and absolute diligence in the planning and allocation of available capital funding. The scale of the task is exacerbated by the reality that the network still comprises large sections of rail that is more than 100 years old and that is not expected to be replaced in the short term.

In May 2015, following the release of the Federal Budget, the Australian and Tasmanian Governments confirmed the availability of the first tranche of \$119.6 million for the Tasmanian Freight Rail Revitalisation Program. Over the four years to 30 June 2019 TasRail will invest this funding in the elimination of a prioritised list of the most critical single points of failure on the network. The majority of the funding will be allocated to the major freight corridors of the South Line, the Western Line and the Melba Line, with provision for selected re-sleeping and re-railing works on the Fingal and Bell Bay Lines

and areas of the operational Derwent Valley Line to Boyer. Works packages have been scoped and will be progressively released to tender on the open market. Based on past upgrade programmes, these works will generate substantial economic benefits and local employment across the regions.

Investment in rail infrastructure and track upgrades not only improves the safety and reliability of freight rail operations to a standard able to compete with road transport for contestable loads, it also delivers an overall increase in the efficiency of the State’s transport system. This in turn translates to lower freight costs for business and industry.

In terms of Below Rail infrastructure maintenance, TasRail reviewed its systems, data and operating structure in 2014/15 to find smarter and more productive ways of ensuring the integrity and safe operation of the network. The effectiveness of the Below Rail maintenance strategy continues to improve with the requirement for unplanned maintenance reducing year on year as a more proactive approach to asset management is adopted.

**THE NETWORK:**

- 611 route kilometres of operational track
- 232 route kilometres of non-operational track (care and maintenance regime)
- 1.3 million sleepers
- 355 bridges
- 3 tunnels
- 106 active level crossings (protected with warning lights and bells)
- 143 passive level crossings (protected with relevant warning signs)
- 250 private level crossings (combination of licensed accommodation, access and stock crossings)



Severe weather again tested the robustness of the infrastructure, particularly during the winter months. TasRail's maintenance crews worked around the clock on multiple occasions to repair damage and to ensure safe passage of train services. Their efforts to achieve this in what were challenging and difficult conditions were again outstanding.

TasRail turned to acclaimed experts to assist with the challenge of broken rails. Monash University has been engaged to investigate a number of broken rails and to determine the root cause of the failures. As part of the project, Monash will also recommend the optimum maintenance and inspection processes required to help prevent similar failures from occurring.

In association with UTAS and SenseT, a project to help predict broken rails was also commenced. This involves interrogation of TasRail's existing track geometry and other data as well as new data from a planned video survey of the network scheduled to occur in the first half of the 2015/16 financial year.



*Rail Operator Glenn Desmond (Freight Services) operates a derailer at Brighton.*



# PERFORMANCE DATA

## Below Rail



### Mainline Derailments

9 November 2014: KPS64.9 (Colebrook)  
Cause: Train handling error/excessive speed



26 January 2015: KPW98.995 (Kimberley)  
Cause: Track geometry

### Number of Signal faults (All Fail Safes)



### Track Condition Index

Table 4

Line	Percentage of track rated Good	Percentage of track rated Fair	Percentage of track rated Poor	Percentage of track rated Very Poor
Western <i>20 per cent has concrete sleepers</i>	58.85	32.58	8.06	0.51
South <i>20 per cent has concrete sleepers</i>	53.56	36.57	9.03	0.85
Melba	32.74	52.95	13.66	0.65
Bell Bay	50.92	40.26	8.27	0.55
Fingal	74.91	20.32	3.71	1.06
Derwent Valley <i>(Bridgewater to Boyer)</i>	49.25	34.33	15.67	0.75

The \$119.6 million of Infrastructure Investment Program funding from the Australian and Tasmanian Governments over the four years to 30 June 2019 will be used to target the most critical sections of track on major freight corridors. It will also be required to arrest the inexorable decline of other sections as much as is possible within the available funding.



## COMMUNITY



TasRail and the Department of State Growth have established a working group to develop a draft framework that can be used to identify, evaluate and manage the future use of the non-operational rail corridors

### NON-OPERATIONAL RAIL LINES

TasRail does not anticipate a commercially viable freight task arising on any of the non-operational rail lines in the future, at least not of the scale required to justify the substantial capital investment needed to reinstate the track and infrastructure to a safe, fit for purpose standard for freight rail operations.

Following TasRail's relocation from Macquarie Point to Brighton, there has been considerable interest in future use of the Hobart Line to Granton by supporters of passenger and tourist rail as well as a number of non-rail proposals. In response to these requests, a working group comprising TasRail and the Department of State Growth through Infrastructure Tasmania was established during 2014/15 to develop a draft framework that can be used to identify, evaluate and manage the future use of the non-operational rail corridors.

By necessity, this involves compiling a knowledge bank of information about the non-operational corridors on a line-by-line basis, and identifying the process for how these lines may be able to be utilised by another party including for both rail and non-rail activities.

The framework will also include recommendations for a formal process that can inform and guide those parties interested in seeking access to the lines, or parts thereof. In the meantime, TasRail is working co-operatively with the State Government to facilitate the development of the North East Rail Trail, utilising the non-operational rail corridor that runs between Coldwater Creek and Tonganah.

## The train horn is a risk mitigation that is designed to save lives.

TasRail's new TR class locomotives are fitted with a horn that meets industry standards, but emits a different sound and frequency than the various types of horns previously used on the older fleet. When the new TR's were first introduced into service, the change of horn prompted an increase in community complaints, particularly from people residing in areas where there is a high frequency of level crossings. TasRail acted responsibly to these complaints by reviewing its horn blowing procedures and introducing new protocols that reduced the volume and frequency of train horn use between the off peak hours of 10pm and 6am. As a result of these changes, the number of train horn noise complaints reduced by almost 50 per cent in 2014/15.

All noise complaints are investigated and where details are provided, train data is downloaded to assess compliance with the protocols.

TasRail's train horn protocols set a minimum standard only, with a train driver authorised to apply the horn in any situation where he or she perceives there to be a potential danger. Again in 2014/15 there were too many near-miss incidents where road users either failed to pay attention to the railway or chose to ignore level crossing warning signs and signals.

Although the reported number of near miss incidents overall (vehicles and pedestrians) was down slightly from the previous year, the North West continues to be over represented in the statistics, accounting for 72 of the total of 94. Equally disturbing is the number of people who trespass the rail corridor. TasRail experienced an 35 per cent increase in trespass reports for 2014/15 with 85 incidents of which 56 were on the Western Line.

At least one train driver required time away from work as a result of post traumatic stress following a reported near miss involving a pedestrian.



*Tom Wolfenden (Freight Services) joined TasRail in 2013 after many years experience as a Train Driver interstate.*





TasRail's level crossing strategy continues to assess the types and effectiveness of warning signals and protection deployed at rail crossings, but short of closing down level crossings, it is apparent that a change in the behaviour of road users and pedestrians is key to reducing the risk. Tasmania Police provide excellent support through enforcement of road safety rules, surveillance campaigns and the issue of infringement notices where appropriate evidence of offenders is provided. TasRail also works with the trackSAFE Foundation and the Australasian Rail Association to develop and promote public rail safety campaigns including active participation in National Rail Safety Week. TasRail acknowledges the support it receives from Tasmanian media in helping to place a spotlight on rail safety, particularly at times of serious incidents or irresponsible behaviour on or near railway lines.





# PERFORMANCE DATA

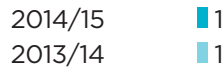
## Public Rail Safety



**Number of reported near miss incidents involving vehicles at level crossings**



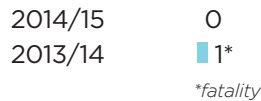
**Number of reported vehicle collisions at level crossings**



**Number of reported near miss incidents involving pedestrians at level crossings**



**Number of reported pedestrian collisions at level crossings**



**Vehicles and pedestrian Near Miss incidents by region**



**Change in performance**





Number of reported incidents of trespass



Number of reported incidents of theft and vandalism



Number of reported incidents of livestock in the rail corridor



Number of reported animal collisions in the rail corridor



Trespass incidents by region



Change in performance



## PUBLIC DISCLOSURES

### Public Interest Disclosure

TasRail is committed to the aims and objectives of the *Public Interest Disclosures Act 2002* and does not tolerate improper conduct by its employees, officers or contractors, or the taking of detrimental action against those who come forward to disclose such conduct.

The *Public Interest Disclosures Act 2002* provides protection to persons who make disclosures in accordance with the Act. TasRail has adopted Model Procedures to be followed by Public Bodies in relation to Public Interest Disclosure (PID). These procedures establish a system for reporting disclosures of improper conduct or detrimental action by TasRail or members, officers or employees of the public body. They are also intended to assist TasRail's members, officers and employees to understand the way in which the Act operates and is to be administered. The procedures are designed to complement normal communication channels between supervisors and employees and have been prepared in accordance with Guidelines and Standards published by the Ombudsman under s 38(1)(c) of the Act. These Guidelines and Standards can be viewed on the Ombudsman's website at [www.ombudsman.tas.gov.au](http://www.ombudsman.tas.gov.au) TasRail's PID procedures are available at [www.tasrail.com.au](http://www.tasrail.com.au) or by contacting the Protected Disclosure Officer, TasRail, PO Box 335, Kings Meadows Tasmania 7249.

In 2014/15 TasRail investigated one incident of PID related to a reported breach of the TasRail Code of Conduct and unauthorised disclosure of personal/commercial information to an external party. The matter was independently investigated in accordance with the requirements of the PID system. The investigation substantiated that a breach had occurred but was not able to determine the party responsible for the misconduct. Rectifying action taken by TasRail at the conclusion of the investigation included a written communication to all employees reminding them that compliance with the TasRail Code of Conduct is a condition of employment. The matter was reported to the Ombudsman in compliance with Section 76 of the Public Interest Disclosures Act 2002 but did not require further investigation by the Ombudsman.

### Right to Information

TasRail is committed to compliance with *Right to Information Act 2009* and to act in a fair, objective and timely manner to ensure the spirit of the Act is upheld. Information about the *Right to Information Act 2009* and TasRail's obligations under it are available at [www.tasrail.com.au](http://www.tasrail.com.au) or email [righttoinformation@tasrail.com.au](mailto:righttoinformation@tasrail.com.au)

During 2014/15 TasRail received a total of five formal applications for Assessed Disclosure. Each of these was finalised and responded to within the required timeframes.

## Personal Information Protection

TasRail values and respects the privacy of all personal and sensitive information. The Company is committed to protecting the information it collects, stores, handles, uses and discloses in accordance with the requirements of the *Personal Information Protection Act 2004* (Tas) which prescribes Personal Information Protection Principles for Tasmania. National Privacy Principles are prescribed under the *Privacy Act 1988* (Cwth). Procedures that define the way TasRail collects, stores, handles, uses and discloses information are published at [www.tasrail.com.au](http://www.tasrail.com.au)

No reports were made under this regime for the 2014/15 reporting period.

## Buy Local

TasRail complies with the Tasmanian Government's Buy Local Policy for its procurement processes, including the requirement to provide transparency about procurement outcomes.

One contract valued at \$5 million or over was awarded during 2014/15. The contract was awarded to local construction company Hazell Bros following a tender process for civil construction works at the George Town Freight Terminal. Works commenced in November 2014 and were completed on schedule by May 2015.

### Summary of purchases from Tasmanian Businesses\* for 2014/15

Table 5

Percentage of purchases from Tasmanian businesses	39
Value of purchases from Tasmanian businesses	\$28.06 million

*\* TasRail is only able to identify a business as being Tasmanian if the invoice payment and/or the ABN is registered to an address within the State. TasRail supports many other local businesses that employ Tasmanians, but if the payment and or ABN is to an interstate Head Office or bank account, these have not been included.*

## Payment of Accounts

TasRail complies with the Tasmanian Government Policy for State-owned Companies to pay outstanding invoices of less than \$50,000 within 30 days, or if a shorter term has been agreed, within the shorter term. Invoices with a value above \$50,000 must be paid in accordance with the agreed terms and by the due date.

Table 6

Performance Measure	Actual Performance 2014/15
Number of Creditor Days	17
Number of accounts due for payment	10,323
Number of accounts paid on time	10,318
Amount due for payment	\$72.36 million
Amount paid on time	\$72.36 million
Number of payments for interest on overdue accounts	5
Interest paid on overdue accounts	\$18

## Consultancies

In September 2014, the Tasmanian Government introduced a new policy that requires State-owned Companies to report details about its procurement and annual spend on Consultancies with a value of \$50,000 or more.

The following table outlines consultancies engaged by TasRail from the date the policy took effect:

Table 7

Consultancies valued at more than \$50,000 (ex GST)				
Name of consultant	Location	Description	Period of engagement	Amount
pitt&sherry	Tasmania	Engineering and economic analysis services	September 2014 to June 2015	\$172,103
Worley Parsons	Victoria	Engineering services	November 2014 to June 2015	\$110,624
			Total	\$282,727
There were 25 consultants engaged for \$50,000 or less totalling				\$326,652
Total Payment to Consultants				\$609,379



# Financial Report

## 30 June 2015

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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 2015 and the Independent Auditor's Report thereon.

### 1. Directors

The Directors of the Company for the year ended 30 June 2015 are:

<b>Name and independence status</b>	<b>Special responsibilities and other directorships</b>
<b>Mr Robert Annells PSM</b> Independent Non-Executive Director, Chairman <i>Appointed 23 November 2009</i> <i>Re-Appointed 1 December 2012</i>	Chairman, Governance and Remuneration Committee Chairman, Melbourne Convention Centre & Exhibition Trust Chairman, Forestry Tasmania
<b>Mr Robert Neil</b> Independent Non-Executive Director, Deputy Chairman <i>Appointed 4 November 2009</i> <i>Re-Appointed 1 December 2012</i>	Chairman, Strategy and Risk Management Committee Member, Finance, Audit and Compliance Committee Member, Safety and Environment Committee Member, Governance and Remuneration Committee Director, Neil Consulting Pty Ltd
<b>Mr Roger Gill</b> Independent Non-Executive Director <i>Appointed 4 November 2009</i> <i>Re-Appointed 1 December 2012</i>	Member, Strategy and Risk Management Committee Member, Governance and Remuneration Committee Director, Pacific Hydro Pty Ltd Director, Hydro Focus Pty Ltd Director, Tasmanian Irrigation Pty Ltd
<b>Mrs Sarah Merridew</b> Independent Non-Executive Director <i>Appointed 17 December 2009</i> <i>Re-Appointed 1 December 2012</i>	Chairman, Finance, Audit and Compliance Committee Member, Safety and Environment Committee Member, Governance and Remuneration Committee Director, MyState Limited
<b>Mr David George</b> Independent Non-Executive Director <i>Appointed 26 May 2011</i> <i>Re-Appointed 1 December 2012</i>	Chairman, Safety and Environment Committee Member, Governance and Remuneration Committee Director, Queensland Rail Ltd Member of the Queensland Rail 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 2015 are:

## Board Meetings

12 meetings held in 2014/2015

<i>Director</i>	<i>Meetings Attended</i>
Robert Annells PSM (Chair)	11
Robert Neil (Deputy Chair)	11
Roger Gill	10
Sarah Merridew	12
David George	11

## Governance and Remuneration Committee

5 meetings held in 2014/2015

<i>Director</i>	<i>Meetings Attended</i>
Robert Annells PSM (Chair)	4
Robert Neil	4
Roger Gill	5
Sarah Merridew	5
David George	4

## Finance, Audit and Compliance Committee

4 meetings held in 2014/2015

<i>Director</i>	<i>Meetings Attended</i>
Sarah Merridew (Chair)	4
Robert Neil	3

## Safety and Environment Committee

5 meetings held in 2014/2015

<i>Director</i>	<i>Meetings Attended</i>
David George (Chair)	5
Robert Neil	5
Sarah Merridew	5

## Strategy and Risk Management Committee

3 meetings held in 2014/2015

<i>Director</i>	<i>Meetings Attended</i>
Robert Neil (Chair)	3
Roger Gill	3

Directors, other than appointed members of Board Committees, regularly attend the Board Committee meetings.

### 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.

The principal activities of the Company during the course of the financial year were the provision of freight rail operations 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 611 kilometres of operational track and 232 kilometres of non-operational track.

#### *Above Rail*

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

#### Operating result

The net loss after tax before comprehensive income for the year ended 30 June 2015 was \$33,531,000 after an impairment loss of \$15,427,000, depreciation of \$12,864,000 and asset revaluation of \$8,277,000 (2014: net loss after tax before comprehensive income \$48,882,000 after an impairment loss of \$41,666,000 and depreciation of \$6,207,000). This has been calculated in accordance with Australian Accounting Standards (AASBs).

The impairment loss relates to capital expenditure on the Below Rail infrastructure funded by

the Australian Government. The infrastructure assets constructed are impaired as they do not generate sufficient revenue to sustain the Below Rail segment of the Company without recurrent Tasmanian Government contributions. Under accounting standards and direction from the Tasmanian Treasurer the Australian and Tasmanian Governments contributions to fund infrastructure assets are required to be recognised directly as equity and not as revenue. The treatment of these amounts as equity contributions was a significant element of the reported loss.

Segment results were made up of the following, Below Rail net loss before income tax of \$18,619,000 (2014: net loss of \$43,992,000) after impairment and depreciation of \$17,273,000 (2014: \$43,584,000) and Above Rail net loss before income tax of \$18,010,000 (2014: net loss of \$3,958,000) after asset revaluation decrement, depreciation and amortisation of \$19,295,000 (2014: \$4,289,000). The Tasmanian Government provides recurrent operating grant funding for the business.

Further discussion of the Company's operating result and strategies are included elsewhere in the annual report.

### 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 year.



Under the terms of the Lease from the Minister for Infrastructure 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 2015. 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 year.

## 6. Events subsequent to reporting date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material 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

The Company is continuing to invest and upgrade critical rail infrastructure to ensure a sustainable rail service. The Tasmanian and Australian Governments have committed to provide \$119,600,000 over the next four years to fund these capital works.

## 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 2014, 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 2015.

## 11. Rounding off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial statements and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.



Robert Annells PSM

**Chairman**

Dated at Launceston this 4th day of August 2015.



**Tasmanian**  
Audit Office

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4 August 2015

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 2015, 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
- (b) any applicable code of professional conduct in relation to the audit.

In accordance with 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**

...1 of 1

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

*Strive | Lead | Excel | To Make a Difference*

## Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2015

	<b>Note</b>	<b>2015 (\$'000)</b>	<b>2014 (\$'000)</b>
<b>Continuing operations</b>			
Revenue from freight services		31,721	34,425
Grant income	4	16,834	16,569
Other income	4	1,966	2,676
Finance income	7	111	752
		50,632	54,422
Employee benefits expense		(27,734)	(28,495)
Maintenance and consumables expense		(9,391)	(7,495)
Fuel expense		(3,862)	(6,575)
Property and lease expense		(3,025)	(3,124)
Administration expense		(3,272)	(3,642)
Finance expense	7	(404)	-
Depreciation & amortisation expense	6	(12,864)	(6,207)
Impairment expense	6	(15,427)	(41,666)
Asset revaluation decrement	15	(8,277)	-
Other expenses		(3,005)	(5,168)
<b>Loss from continuing operations</b>		<b>(36,629)</b>	<b>(47,950)</b>
Taxation equivalent benefit (expense)	8	3,098	(932)
<b>Loss for the year after tax before comprehensive income</b>		<b>(33,531)</b>	<b>(48,882)</b>
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Asset revaluation increment	15	9,835	-
Tax on item that will not be reclassified to profit or loss	8	(2,951)	-
<i>Total items that will not be reclassified to profit or loss</i>		6,884	-
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Cash flow hedge reserve	20	490	(3,107)
Tax on items that may be reclassified subsequently to profit or loss	8	(147)	932
<i>Total items that may be reclassified subsequently to profit or loss</i>		343	(2,175)
<b>Total comprehensive loss for the year</b>		<b>(26,304)</b>	<b>(51,057)</b>

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



## Statement of Financial Position

As at 30 June 2015

	<i>Note</i>	<b>2015</b> <b>(\$'000)</b>	<b>2014</b> <b>(\$'000)</b>
<b>Assets</b>			
Cash and cash equivalents	9	1,087	9,405
Trade and other receivables	10	5,868	4,202
Inventories	11	9,492	9,637
Assets classified as held for sale	13	512	-
Other assets	12	714	256
<b>Total Current Assets</b>		<b>17,673</b>	<b>23,500</b>
Other assets	12	35	3
Property, plant and equipment	15	116,902	107,244
<b>Total Non-current Assets</b>		<b>116,937</b>	<b>107,247</b>
<b>Total Assets</b>		<b>134,610</b>	<b>130,747</b>
<b>Liabilities</b>			
Trade and other payables	16	4,386	7,561
Employee benefits	17	4,146	4,485
Borrowings	18	4,000	-
<b>Total Current Liabilities</b>		<b>12,532</b>	<b>12,046</b>
Employee benefits	17	619	534
<b>Total Non-current Liabilities</b>		<b>619</b>	<b>534</b>
<b>Total Liabilities</b>		<b>13,151</b>	<b>12,580</b>
<b>Net Assets</b>		<b>121,459</b>	<b>118,167</b>
<b>Equity</b>			
Share capital	19	320,929	291,333
Reserves	20	7,408	181
Accumulated losses		(206,878)	(173,347)
<b>Total Equity</b>		<b>121,459</b>	<b>118,167</b>

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

## Statement of Changes in Equity

For the year ended 30 June 2015

	<i>Note</i>	<i>Share Capital (\$'000)</i>	<i>Cash Flow Hedging Reserve (\$'000)</i>	<i>Asset Revaluation Reserve (\$'000)</i>	<i>Accumulated Losses (\$'000)</i>	<i>Total Equity (\$'000)</i>
<b>At 1 July 2013</b>		232,354	2,356	-	(124,465)	110,245
Equity contributed	19	58,979	-	-	-	58,979
Total comprehensive loss for the year	20	-	(2,175)	-	(48,882)	(51,057)
<b>At 30 June 2014</b>		291,333	181	-	(173,347)	118,167
<b>At 1 July 2014</b>		291,333	181	-	(173,347)	118,167
Equity contributed	19	29,596	-	-	-	29,596
Total comprehensive loss for the year	20	-	343	6,884	(33,531)	(26,304)
<b>At 30 June 2015</b>		320,929	524	6,884	(206,878)	121,459

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

## Statement of Cash Flows

For the year ended 30 June 2015

	<b>Note</b>	<b>2015 (\$'000)</b>	<b>2014 (\$'000)</b>
<b>Cash flows from operating activities</b>			
Receipts from customers		35,446	40,933
Grants received for operating activities		16,834	16,569
Payments to suppliers and employees		(54,782)	(61,511)
Cash generated from operations		(2,502)	(4,009)
Interest received		111	752
Interest paid		(404)	-
<b>Net cash from/(used in) operating activities</b>	24	<b>(2,795)</b>	<b>(3,257)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(39,379)	(86,797)
Proceeds from sale of plant and equipment		260	243
<b>Net cash from/(used in) investing activities</b>		<b>(39,119)</b>	<b>(86,554)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		24,000	-
Repayment of borrowings		(20,000)	-
Equity contributions from the Tasmanian Government	19	20,000	27,300
Equity contributions from the Australian Government	19	9,596	31,679
<b>Net cash provided by financing activities</b>		<b>33,596</b>	<b>58,979</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(8,318)</b>	<b>(30,832)</b>
<b>Cash and cash equivalents at start of period</b>		<b>9,405</b>	<b>40,237</b>
<b>Cash and cash equivalents at 30 June</b>	9	<b>1,087</b>	<b>9,405</b>

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

## 1. Corporate Information

Tasmanian Railway Pty Ltd (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. Summary of significant accounting policies

### 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 4 August 2015.

### Basis of preparation

The financial report is prepared on the historical costs basis, except for certain non-current assets, available for sale assets and derivative assets from cash flow hedges disclosed at Notes 12, 13 and 15 that are measured at revalued amounts or fair values, as explained in the accounting policies below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these

financial statements is determined on such a basis.

In addition, for financial reporting purposes, fair value measurements are categorised as Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

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

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

The Company is of the kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial statements and directors’ report have been rounded off to the nearest thousand dollars, unless otherwise stated.

### 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.

Government grants 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 unless they have been designated as an equity contribution by the Tasmanian State Treasurer. Where this occurs the funding is allocated directly to "Share Capital" and is reflected in the Statement of Changes in Equity.

#### **(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 initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets.

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

#### **(c) Property, Plant and Equipment**

##### **i) Recognition and measurement**

Rollingstock assets are stated at fair value on the basis of an independent market valuation by external valuation experts. This valuation is undertaken in United States dollars and translated at the exchange rate on 30 June (see Note 15). Allowance has been made for the estimated costs of selling and transporting these assets to potential markets. Revaluations will be performed with sufficient regularity so that the carrying amounts do not differ materially from those that would be determined using fair values at the end of the reporting period.

Any revaluation increase is recognised in other comprehensive income and accumulated within equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in the profit or loss,

in which case the increase is credited to profit and loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on revaluation is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued assets is recognised in profit and loss. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus remaining in the asset revaluation reserve is transferred directly to retained earnings. No transfer is made from the revaluation reserve to retaining earnings except when an asset is derecognised.

Other items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see accounting policy 2(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 and, where relevant, 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 \$5,000 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.

**ii) Depreciation**

Depreciation is calculated on the depreciable amount, which is the fair value or 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 and prior years are as follows:

<b><i>Class of Asset</i></b>	<b><i>Useful Life</i></b>
Buildings	9 - 15 years
Rollingstock - Refurbished	3 - 8 years
Rollingstock - New	25 - 30 years
Plant, Equipment & Motor Vehicles	3 - 18 years

Infrastructure assets have been fully impaired and will not be depreciated in future years.

**(d) Provisions**

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

**(e) Employee Entitlements**

**i) Short term benefits**

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

**ii) Long term benefits**

The Company's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on-costs. 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 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.

#### **(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 financial assets. 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 2(f)), capital work in progress and deferred tax assets (see accounting policy 2(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.

##### **(i) Finance income and finance costs**

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

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

##### **(j) Segment reporting**

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

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

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

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment for the benefit of each segment.

**(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.

**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's non-derivative financial liabilities are trade and other payables and borrowings. 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 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 25 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 12 and 25 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.

***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 profit or loss 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) 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 2015, but have not been applied in preparing these financial statements. The Company intends to adopt these standards in the first applicable financial reporting period. The extent of impact, if any, that the initial implementation of the Standards will have on the financial statements is set out below.

<b>AASB amendment</b>	<b>Nature of change to Accounting Policy</b>	<b>Reporting periods commencing on or after</b>	<b>Application date for the Company</b>
<b>AASB 9</b> <i>Financial Instruments</i>	The standard affects financial assets and financial liabilities.	1 January 2017	30 June 2018
<b>AASB 2010-7</b> <i>Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2012-6 Amendments to Australian Accounting Standards</i>	The amendments arising from this standard are not expected to change the reported financial position or performance of the Company. Any changes to disclosure requirements are under review.		
<b>AASB 15</b> <i>Revenue from Contracts with Customers</i>	The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfer to a customer – so the notion of control replaces the existing notion of risks and rewards.  Management is currently assessing the impact of the new rules but at this stage does not expect any material impact on the Company’s financial statements. The Company will make a more detailed assessment of the impact over the next twelve months.	1 January 2017	30 June 2018

### **(m) 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.

### **(n) Capital management**

The capital base of the Company has been contributed by the Australian and Tasmanian Governments since commencement. The Company will continue to depend upon these contributions to maintain creditor and market confidence and to sustain future operation 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.

### **(o) Adoption of new and amended accounting standards**

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2014:

- AASB 2013-3 *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets*
- AASB 2013-4 *Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting*
- Interpretation 21 *Accounting for Levies*
- AASB 2014-1 *Amendments to Australian Accounting Standards*

The adoption of AASB 2013-3 required a minor change to impairment disclosures (Note 15) and AASB 2014-1 has required additional disclosures in the segment disclosures (Note 21). Other than these changes, the adoption of these standards did not have any impact on the current period or any prior period and is not likely to affect future periods.

## **3. Critical accounting judgements and key sources of estimation uncertainty**

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.

This note provides an overview of the areas that involved a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be incorrect. Detailed information about each of these estimates is included at Notes 6 and 15. In addition, this note explains where there have been actual adjustments this year a result of changes to previous estimates.

### **Impairment of infrastructure**

As noted at note 2(h) Impairment the Directors have determined that all infrastructure assets should be impaired. This is further described at Note 15.

### **Useful lives of rollingstock and leasehold improvements**

As described in Note 2(c), the Company reviews the estimated useful life of property, plant and equipment during each reporting period.

The Directors determined that rollingstock assets purchased new and commissioned during the reporting period had a useful life between 25 and 30 years.

During the year the estimated total lives of refurbished rollingstock and leasehold improvements (buildings) were revised. The net effect of the changes in the current financial year was an increase in depreciation expense of \$4,013,000.

The refurbished rollingstock assets were revalued at 30 June 2015 at fair value which resulted in a decrement in asset value and as a consequence the change in useful lives is not expected to have

a material effect on depreciation expense in future years.

If the leasehold improvements are held until the end of their estimated useful lives, depreciation in future years in relation to these assets will be increased by \$305,000 per annum over the next 8 years.

#### **Fair value measurements and valuation processes**

The Company's rollingstock assets are measured at fair value for financial reporting purposes.

In estimating the fair value of an asset or a liability, the Company uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Company engages qualified third-party valuers to perform the valuation. The Company works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the valuation model.

Note 15 reports the carrying amount of the Company's rollingstock and note 2(c) details the valuation policy. Significant judgements made in applying these policies include:

- The need for an independent valuation;
- The need for the valuation to be determined in United States dollars; and
- The location of potential markets for rollingstock.

All of these assumptions include risk that can materially alter the carrying amount of the rollingstock.

#### 4. Other income

	<b>2015</b> <b>(\$'000)</b>	<b>2014</b> <b>(\$'000)</b>
Grant income - Tasmanian Government contribution to operating expenditure (i)	16,834	16,569
Sundry	1,538	1,499
Property Rental	755	1,032
Net gain (loss) on sale of property, plant and equipment	(327)	145
	<b>1,966</b>	<b>2,676</b>

(i) All grants received are accounted for in accordance with the accounting policy in Note 2(a).

#### 5. Auditors' remuneration

	<b>2015</b> <b>(\$)</b>	<b>2014</b> <b>(\$)</b>
<b>Audit Services</b>		
Auditors of the Company:		
Tasmanian Audit Office		
Audit the financial report	49,550	48,550
	<b>49,550</b>	<b>48,550</b>

#### 6. Depreciation, amortisation

	<b>2015</b> <b>(\$'000)</b>	<b>2014</b> <b>(\$'000)</b>
Depreciation, amortisation and impairment expense for the year consists of:		
Amortisation of leasehold improvements (buildings)	1,421	654
Depreciation of infrastructure	600	776
Depreciation of plant, equipment & motor vehicles	989	679
Depreciation of rollingstock (refurbished)	7,517	4,098
Depreciation of rollingstock (new)	2,337	-
	<b>12,864</b>	<b>6,207</b>
Impairment of infrastructure	15,427	41,666
	<b>41,155</b>	<b>54,080</b>



## 7. Finance income and expense

	2015 (\$'000)	2014 (\$'000)
Interest income	111	752
Finance income	111	752
Interest expense	404	-
Finance expense	404	-

## 8. Taxation equivalent benefit

	2015 (\$'000)	2014 (\$'000)
<b>Income tax expense attributable to continuing operations</b>		
Current year expense / (benefit)	-	-
Adjustments for prior years	-	-
Deferred tax expense:		
Origination and reversal of temporary differences:		
Increase/(Decrease) in deferred tax liability	142	(1,989)
Decrease/(Increase) in deferred tax asset	(8,022)	(13,315)
Adjustments for prior years	-	-
Non-recognition of temporary differences and tax equivalent losses	10,978	14,372
<b>Income tax (expense)/benefit attributable to profit/(loss) before other comprehensive income</b>	3,098	(932)
<b>Tax recognised in other comprehensive income</b>		
Tax (expense) benefit relating to cash flow hedge reserve	(147)	932
Tax (expense) benefit relating to asset revaluation reserve	(2,951)	-
<b>Total taxation equivalent expense/benefit</b>	-	-
<b>Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income rate</b>		
Loss before tax	(36,629)	(47,950)
Income tax using the domestic corporation tax rate of 30%	(10,989)	(14,385)
Increase in income tax expense due to:		
Non-deductible expenses	11	13
	(10,978)	(14,372)
Add prior year under/(over) provision	-	-
Non-recognition of temporary differences and tax equivalent losses	10,978	14,372
Total taxation equivalent expense/benefit	-	-

## 9. Cash and cash equivalents

	2015 (\$'000)	2014 (\$'000)
Bank balances	1,086	8,173
Call deposits	-	1,231
Petty cash on hand	1	1
Cash and cash equivalents in the statement of cash flows	1,087	9,405

## 10. Trade and other receivables

	2015 (\$'000)	2014 (\$'000)
<b>Current</b>		
Trade receivables	5,238	3,347
Sundry receivables	161	178
Prepayments	382	335
GST receivable	87	342
	5,868	4,202

The average credit period on freight services is 53.9 days (2014: 32.5 days). No interest is charged on trade receivables. Trade receivables over 60 days will be provided for based on estimated irrecoverable amounts from the provision 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

	2015 (\$'000)	2014 (\$'000)
Consumables and spare parts - At cost		
Rollingstock, plant and equipment	3,770	3,533
Infrastructure	5,422	5,893
Fuel stock - At cost	300	211
	9,492	9,637

The cost of inventory expensed in the year was \$7,844,000 (2014: \$10,010,000).

## 12. Other assets

	2015 (\$'000)	2014 (\$'000)
<b>Current</b>		
Derivative asset - cash flow hedges	714	256
<b>Non-current</b>		
Derivative asset - cash flow hedges	35	3

## 13. Assets classified as held for sale

	2015 (\$'000)	2014 (\$'000)
Rollingstock held for sale	512	-

## 14. Deferred tax assets and liabilities

	2015 (\$'000)	2014 (\$'000)
<b>Recognised deferred tax assets and liabilities</b>		
Deferred tax assets and liabilities are attributable to the following:		
<b>Deferred tax assets</b>		
Employee benefits	1,539	1,602
Trade and other payables	138	222
Property, plant and equipment	48,824	44,808
Carried forward tax losses - Revenue Losses	10,187	6,034
Carried forward tax losses - Capital Losses	518	518
Tax assets	61,206	53,184
De-recognised due to not being probable of recovery	(60,956)	(53,076)
Set-off against deferred tax liability	(250)	(108)
Net deferred tax asset	-	-
<b>Deferred tax liabilities</b>		
Inventory	90	64
Trade and other receivables	160	44
Tax liabilities	250	108
Set-off of tax	(250)	(108)
	-	-

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities

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.

## 15. Property, Plant and Equipment

	<b>2015</b> <b>(\$'000)</b>	<b>2014</b> <b>(\$'000)</b>
Leasehold Improvements (Buildings) - At Cost	9,241	10,751
Accumulated depreciation	(3,824)	(2,557)
	5,417	8,194
Infrastructure - At Cost	168,727	158,964
Accumulated depreciation	(4,261)	(3,661)
Accumulated impairment losses	(164,466)	(149,040)
	-	6,263
Plant, Equipment & Motor Vehicles - At Cost	13,408	7,453
Accumulated depreciation	(3,594)	(2,569)
	9,814	4,884
Rollingstock (Refurbished) - At Fair Value	1,794	-
- At Cost	-	28,349
Accumulated depreciation	-	(15,758)
	1,794	12,591
Rollingstock (New) - At Fair Value	88,762	-
Capital Projects - Work in Progress	11,115	75,312
Total property, plant and equipment net book value	116,902	107,244

The Company considered certain infrastructure assets relating to the Below Rail segment of the Company to be impaired. Impairment losses of \$15,427,000 (2014: \$41,666,000) were recognised. These impairment losses are recognised in accordance with the accounting policy detailed in Note 2(h).

Under accounting standards and direction from the Tasmanian Treasurer the Australian and Tasmanian Government contributions for capital investment are required to be recognised directly to equity and not to revenue. Therefore these contributions do not offset impairment losses recognised in the net loss after income tax in the statement of comprehensive income.

The Company is the lessee and operator of the Brighton Transport Hub in Brighton, Tasmania. The land and improvements for the Brighton Transport Hub are owned by the Crown and have been recognised in the financial statements of the Department of State Growth.

## 15. Property, Plant and Equipment (continued)

	2015 (\$'000)	2014 (\$'000)
<b>Reconciliations</b>		
Reconciliations of the carrying amounts for each class of plant and equipment are set out below:		
<b>Leasehold Improvements (Buildings) - At Cost</b>		
Carrying amount at the beginning of the period	8,194	5,623
Additions	-	3,225
Reclassification of assets to plant and equipment	(1,356)	-
Depreciation	(1,421)	(654)
Carrying amount at the end of the period	5,417	8,194
<b>Infrastructure - At Cost</b>		
Carrying amount at the beginning of the period	6,263	7,039
Additions	9,764	41,666
Depreciation	(600)	(776)
Impairment Loss	(15,427)	(41,666)
Carrying amount at the end of the period	-	6,263
<b>Plant, Equipment &amp; Motor Vehicles - At Cost</b>		
Carrying amount at the beginning of the period	4,884	5,263
Additions	4,563	300
Reclassification of assets from leasehold improvements	1,356	-
Depreciation	(989)	(679)
Carrying amount at the end of the period	9,814	4,884
<b>Rollingstock (Refurbished) - At Fair Value</b>		
Carrying amount at the beginning of the period	12,591	16,787
Additions	1,255	-
Disposals	(35)	(98)
Depreciation	(7,517)	(4,098)
Asset revaluation recognised in profit and loss	(4,518)	-
Asset revaluation recognised in other comprehensive income	18	-
Carrying amount at the end of the period	1,794	12,591



## 15. Property, Plant and Equipment (continued)

	<b>2015</b> <b>(\$'000)</b>	<b>2014</b> <b>(\$'000)</b>
<b>Rollingstock (New) - At Fair Value</b>		
Carrying amount at the beginning of the period	-	-
Additions	85,599	-
Disposals	(558)	-
Depreciation	(2,337)	-
Asset revaluation recognised in profit and loss	(3,759)	-
Asset revaluation recognised in other comprehensive income	9,817	-
Carrying amount at the end of the period	88,762	-
<b>Capital Projects - Work in Progress</b>		
Carrying amount at the beginning of the period	75,312	33,707
Additions	38,012	86,797
Transfers out	(102,209)	(45,192)
Carrying amount at the end of the period	11,115	75,312
Total Property, Plant and Equipment net book value	116,902	107,244

An independent valuation of rollingstock assets was undertaken by Ernst & Young as at 30 June 2015. The valuation was undertaken in United States dollars and translated into Australian Dollars at reporting date. The values were determined on the basis of the knowledge and experience of the valuer of the market value of like assets. This valuation of new and refurbished rollingstock resulted in a fair value of \$90,556,000. If the rollingstock had been carried at cost, the depreciated value of the new and refurbished rollingstock would have been \$88,998,000. The resulting \$1,558,000 increase in asset value comprised a decrement of \$8,277,000, recognised in the profit or loss and an increment of \$9,835,000, recognised in other comprehensive income to the asset revaluation reserve.

### Fair value measurement

The table below presents the Company's assets measured and recognised at fair value at 30 June 2015. Comparative information has not been provided as allowed under the transitional provisions of AASB 13.

	<b>2015</b> <b>(\$'000)</b>
<b>Level 2</b>	
Rollingstock (Refurbished)	1,794
Rollingstock (New)	88,762
	90,556

## 16. Trade and other payables

	<b>2015</b> <b>(\$'000)</b>	<b>2014</b> <b>(\$'000)</b>
Trade payables	2,169	1,609
Other trade payables	761	1,708
Accrued expenses	1,456	4,244
	<b>4,386</b>	<b>7,561</b>

The average credit period on purchase of goods and services is 17.1 days (2014: 10.4 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 25.

## 17. Employee benefits

	<b>2015</b> <b>(\$'000)</b>	<b>2014</b> <b>(\$'000)</b>
<b>Current</b>		
Liability for annual leave	2,574	2,884
Liability for long-service leave	1,572	1,601
	<b>4,146</b>	<b>4,485</b>
<b>Non Current</b>		
Liability for long-service leave	619	534

## 18. Borrowings

	<b>2015</b> <b>(\$'000)</b>	<b>2014</b> <b>(\$'000)</b>
<b>Current</b>		
Loan from Tascorp	4,000	-

## 19. Share capital

	<b>2015</b> <b>(\$'000)</b>	<b>2014</b> <b>(\$'000)</b>
Opening Balance - fully paid ordinary shares	291,333	232,354
Equity contributed during the year (i)	29,596	58,979
Closing Balance - fully paid ordinary shares	<b>320,929</b>	<b>291,333</b>

(i) This is funding provided to the Company which has been formally designated as equity in accordance with the accounting policy in Note 2(a) and comprises of:

1. Tasmanian State Government funds for capital works programmes and operational expenditure of \$20,000,000 (2014: \$27,300,000)
2. Australian Government funds for capital works programmes of \$9,596,000 (2014: \$31,679,000)

## 20. Reserves

	<b>2015</b> <b>(\$'000)</b>	<b>2014</b> <b>(\$'000)</b>
<b>Asset revaluation reserve</b>		
Opening Balance	-	-
Asset revaluation increment	9,835	-
Tax effect arising on asset revaluation	(2,951)	-
Closing Balance	6,884	-
<b>Cash flow hedge reserve</b>		
Opening Balance	181	2,356
Effective portion of changes in fair value of cash flow hedge	490	(3,107)
Tax effect arising on market valuation	(147)	932
Closing Balance	524	181

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.

## 21. 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. 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:

<i>Segment</i>	<i>Above Rail (\$'000)</i>	<i>Below Rail (\$'000)</i>	<i>Total (\$'000)</i>
<b>Year ended 30 June 2015</b>			
External revenues	33,474	17,047	50,521
Inter-segment revenue	-	3,289	3,289
Interest revenue	41	70	111
Interest expense	(323)	(81)	(404)
Impairment	-	(15,427)	(15,427)
Asset revaluation decrement	(8,277)	-	(8,277)
Depreciation and amortisation	(11,018)	(1,846)	(12,864)
Reportable segment profit / (loss) before income tax	(18,010)	(18,619)	(36,629)
Reportable segment assets	119,726	13,797	133,523
Add: cash and cash equivalents not allocable to segments			1,087
Total assets			134,610
Capital expenditure	24,956	13,056	38,012

## 21. Operating segments (continued)

<i>Segment</i>	<i>Above Rail (\$'000)</i>	<i>Below Rail (\$'000)</i>	<i>Total (\$'000)</i>
<b>Year ended 30 June 2014</b>			
External revenues	37,008	16,662	53,670
Inter-segment revenue	-	2,912	2,912
Interest revenue	278	474	752
Interest expense	-	-	-
Impairment	-	(41,666)	(41,666)
Depreciation and amortisation	(4,289)	(1,918)	(6,207)
Reportable segment profit / (loss) before income tax	(3,958)	(43,992)	(47,950)
Reportable segment assets	94,570	26,772	121,342
Add: cash and cash equivalents not allocable to segments			9,405
Total assets			130,747
Capital expenditure	44,572	42,225	86,797

<b>Major customers</b>	<b>2015 (\$'000)</b>	<b>2014 (\$'000)</b>
Revenue from three parties represent approximately 58.4 % (2014: 50.1%) of freight services and other income as follows:		
- Party 1 (freight services - Above Rail)	7,818	7,082
- Party 2 (freight services - Above Rail)	7,057	5,690
- Party 3 (freight services - Above Rail)	5,160	5,825

### **Economic Dependency**

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



## 22. Dividends

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

## 23. Commitments for expenditure

	2015 (\$'000)	2014 (\$'000)
<b>Capital expenditure commitments</b>		
Above Rail	3,491	29,288
Below Rail	3,184	3,169
	6,675	32,457
<b>Operating Leases</b>		
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	1,401	974
Between one and five years	1,668	927
	3,069	1,901

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 5 years with operating lease payments based on the terms of the underlying lease agreements.

During the year, an amount of \$1,235,000 (2014: \$1,172,000) was recognised as an expense in respect of operating leases.

## 24. Reconciliation of cash flows from operating activities

	2015 (\$'000)	2014 (\$'000)
<b>Cash flows from operating activities</b>		
Loss for the period	(33,531)	(48,882)
Adjustments for:		
Asset revaluation	8,277	-
Depreciation	12,864	6,207
Impairment	15,427	41,666
Tax expense/(benefit) relating to cash flow hedge reserve	(147)	932
Tax expense/(benefit) relating to asset revaluation increment	(2,951)	0
Gain (loss) on disposal of property, plant and equipment	(327)	(145)
<b>Operating profit before changes in working capital and provisions</b>	(388)	(221)
- Adjustment for movement in payables related to investing activities	3,057	-
- Increase/(Decrease) in payables	(3,175)	774
- Increase/(Decrease) in employee benefits	(256)	182
- (Increase)/Decrease in receivables	(1,666)	571
- (Increase)/Decrease in inventories	(367)	(4,563)
<b>Net Cash flows from operating activities</b>	(2,795)	(3,257)

## 25. Financial instruments

### Overview

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

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management 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 Australian financial institutions. The Company's maximum exposure at the reporting date was:

	<b>2015</b> <b>(\$'000)</b>	<b>2014</b> <b>(\$'000)</b>
Cash and cash equivalents (Note 9)	1,087	9,405
Trade and other receivables (Note 10)	5,868	4,202
Derivative assets - cash flow hedges (Note 12)	749	259
	<b>7,704</b>	<b>13,866</b>

The geographic exposure to credit risk is limited to Australia. More than 85 per cent 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 services are made on a prepayment basis with approval of the Chief Executive Officer.

	<b>2015</b> <b>(\$'000)</b>	<b>2014</b> <b>(\$'000)</b>
The ageing of trade receivables at the reporting date was:		
Not past due	4,056	3,130
Past due 0-34 days	940	191
Past due 34-65 days	242	21
Past due more than 65 days	-	5
Total	<b>5,238</b>	<b>3,347</b>

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

## 25. Financial instruments (continued)

### Liquidity risk

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

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

	<b>2015</b> <b>(\$'000)</b>	<b>2014</b> <b>(\$'000)</b>
<b>Non-derivative financial liabilities</b>		
Trade and other payables - payable in 6 months or less	4,386	7,561
Borrowings - payable in 12 months or less	4,000	-
	<b>8,386</b>	<b>7,561</b>

### 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 currency in which these transactions are primarily denominated are the United States Dollar (USD). The Company uses forward exchange contracts to hedge its currency risk.

Exposure to currency risk

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

	<b>2015 USD</b> <b>(\$'000)</b>	<b>2014 USD</b> <b>(\$'000)</b>
Trade payables	-	-
Forward exchange contracts payable (receivable)	(749)	(259)
Net exposure	<b>(749)</b>	<b>(259)</b>

The following significant exchange rates applied during the year:

	<b>2015</b>	
	<b>Average</b>	<b>Reporting date spot rate</b>
AUD : USD	0.8382	0.7680

	<b>2014</b>	
	<b>Average</b>	<b>Reporting date spot rate</b>
AUD : USD	0.9181	0.9404

*Sensitivity analysis*

A strengthening (weakening) of the AUD, as indicated below, against the USD at 30 June would have increased (decreased) equity and profit or 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.

	<b>Strengthening - impact on profit or loss, and equity (\$'000)</b>	<b>Weakening - impact on profit or loss, and equity (\$'000)</b>
<b>30 June 2015</b>		
USD (10% movement)	(68)	83
<b>30 June 2014</b>		
USD (10% movement)	(23)	29

## 25. Financial instruments (continued)

### Interest rate risk

The Company holds cash and cash equivalents in a series of at call accounts and borrowings with variable interest rates.

A change in interest rates would have increased or decreased the Company's profit and loss by the following amounts. There is no impact in the Company's equity.

	<b>Balance (\$'000)</b>	<b>Interest rates increased by 100 basis points (\$'000)</b>	<b>Interest rates decreased by 100 basis points (\$'000)</b>
<b>30 June 2015</b>			
<b>Financial assets:</b>			
Cash and cash equivalents	1,087	34	(34)
Trade and other receivables	5,868	-	-
<b>Financial liabilities:</b>			
Trade and other payables	4,386	-	-
Borrowings	4,000	(110)	110

### 30 June 2014

#### Financial assets:

Cash and cash equivalents	9,405	249	(249)
Trade and other receivables	4,202	-	-

#### Financial liabilities:

Trade and other payables	7,561	-	-
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### Undrawn financing facilities

The Company had access to the following undrawn financing facilities at the end of the reporting period:

	<b>2015 (\$'000)</b>	<b>2014 (\$'000)</b>
Corporate charge card facility	182	181
Borrowings	26,000	40,000
	<b>26,182</b>	<b>40,181</b>

The Tasmanian Government is providing the capital funds required to upgrade the Company's rollingstock fleet, train control system and other assets via an asset transfer from the state owned corporation Tasmanian Networks Pty Ltd (TasNetworks) to the Company in the amount of \$20 million per annum for five years to 15 May 2016. However, these new assets were substantially paid for by 30 June 2015 which is in advance of the TasNetworks contributions. In order to meet these capital expenditure requirements, the Company entered into a borrowing facility with Tascorp. As at 30 June 2015 the facility had a maximum limit of \$30 million (2014: \$40 million). The maximum limit will reduce to \$10 million as contributions are received from TasNetworks and paid to Tascorp.

The Tascorp borrowing facility was secured by way of a first ranking fixed and floating charge over the assets of the Company and a Letter of Comfort from the Tasmanian Treasurer. Interest is payable monthly in arrears at a variable rate which is determined at the time of the drawdown of the facility.



## 25. Financial instruments (continued)

The following table provides an analysis of the financial instruments that are measured subsequent to initial recognition at fair value, group into levels 1 to 3 based on the degree to which the fair value is observable.

	<i>Level 1</i> <i>(\$'000)</i>	<i>Level 2</i> <i>(\$'000)</i>	<i>Level 3</i> <i>(\$'000)</i>	<i>Total</i> <i>(\$'000)</i>
<b>Year ended 30 June 2015</b>				
Derivative financial asset - cash flow hedges	-	749	-	749

	<i>Level 1</i> <i>(\$'000)</i>	<i>Level 2</i> <i>(\$'000)</i>	<i>Level 3</i> <i>(\$'000)</i>	<i>Total</i> <i>(\$'000)</i>
<b>Year ended 30 June 2014</b>				
Derivative financial asset - cash flow hedges	-	259	-	259

There were no transfers between levels in the reporting period (2014 \$Nil).

The fair value of the derivative financial assets have been determined based on forward exchange rates at 30 June.

The fair value of borrowings is not materially different from the carrying value as the interest payable on these borrowings are in line with current market rates and are of a short term nature.

The carrying values of all of the Company's other financial assets and financial liabilities approximate their fair value.

## 26. Contingencies

Under the terms of the Lease from the Minister for Infrastructure 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 2015. 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 has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material 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.

## 28. Related Party Transactions

### (a) Key Management Personnel

Remuneration levels for key management personnel are set in accordance with the Director and Executive Remuneration Guidelines, dated December 2014. Under these Guidelines, remuneration bands for Chief Executive Officers (CEOs) are determined by the Government Business Executive Remuneration Panel and reflect the principles outlined in the Guidelines and broadly align with State Service Heads of Agency. Positioning within the bands depends on the complexity and size of the business and the environment in which the business operates. Remuneration for other senior executives is set with reference to the CEO's salary.

### *Non-executive directors*

Non-executive directors are appointed by the Governor-in-Council on the joint recommendation of the Treasurer and Portfolio Minister. Each instrument of appointment is for a maximum period of three years and prescribes the relevant remuneration provisions. Directors can be re-appointed.

The level of fees paid to non-executive directors is administered by the Department of Premier and Cabinet as is additional fees paid in respect of their work on Board committees.

Superannuation is paid at the appropriate rate as prescribed by superannuation guarantee legislation. No other leave, termination or retirement benefits are accrued or paid to directors. Directors are entitled to reimbursement of expenses incurred while attending to Board business. Non-executive directors' remuneration is reviewed periodically with increases subject to approval by the Treasurer and Portfolio Minister.

### *Executive remuneration*

Under the Guidelines, remuneration bands for Chief Executive Officers (CEOs) are determined by the Government Business Executive Remuneration Panel and reflect the principles outlined in the Guidelines and broadly align with State Service Heads of Agency. Positioning within the bands depends on the complexity and size of the business and the environment in which the business operates. Remuneration for other senior executives is set with reference to the CEO's salary.

The CEO is appointed by the Board. The Board consults with the Government Business Executive Remuneration Panel when determining the CEO's remuneration package.

The employment terms and conditions of senior executives are contained in individual employment contracts and prescribe total remuneration, superannuation, annual and long service leave, vehicle and salary sacrifice provisions. In addition to their salaries, the Company also provides non-cash benefits to its senior executives, and contributes to a post-employment defined contribution superannuation plan on their behalf.

## 28. Related Party Transactions (continued)

The performance of each senior executive, including the CEO, is reviewed annually which includes a review of their remuneration package. The terms of employment of each senior executive, including the CEO, contain a termination clause that requires the senior executive or the Board to provide a minimum notice period of up to 6 months prior to termination of the contract. Whilst not automatic, contracts can be extended.

### *Short term incentive payments*

The Board sets fixed performance targets with goals and indicators aligned to the creation of value.

Short term incentive payments were paid during the current year based on each senior executive meeting agreed performance objectives which covered a mix of targets linked to financial, safety and personal objectives tailored to each position for the previous financial year.

### **Directors remuneration**

The following tables disclose the remuneration details in bands for each person that acted as a non-executive director during the current and previous financial year:

<b>Non-executive director</b>	<b>Directors' fees</b> \$	<b>Committee fees</b> \$	<b>Super-annuation *</b> \$	<b>Other fees</b> \$	<b>Total 2015</b> \$
Mr R Annells PSM - Chairman	109,970	-	10,172	-	120,142
Mr D George	35,382	9,390	4,141	-	48,913
Mr R Gill	35,382	9,390	4,141	-	48,913
Mrs S Merridew	35,382	9,390	4,141	-	48,913
Mr R Neil	11,105	9,390	28,418	-	48,913

<b>Non-executive director</b>	<b>Directors' fees</b> \$	<b>Committee fees</b> \$	<b>Super-annuation *</b> \$	<b>Other fees</b> \$	<b>Total 2014</b> \$
Mr R Annells PSM - Chairman	109,970	-	10,172	-	120,142
Mr D George	35,382	9,390	-	-	44,772
Mr R Gill	35,382	9,390	4,141	-	48,913
Mrs S Merridew	35,382	9,390	4,141	-	48,913
Mr R Neil	11,105	9,390	28,418	-	48,913

\* Superannuation represents employer contributions including amounts salary sacrificed.

## 28. Related Party Transactions (continued)

**Executive remuneration**

The following table discloses the compensation paid for key management personnel during the current and previous financial year:

<b>Senior executive</b>	<b>Base salaries</b> \$	<b>Superannuation *</b> \$	<b>Termination benefits ****</b> \$
Mr D White - Chief Executive Officer	286,965	29,964	-
Mr S Dietrich - Chief Financial Officer / Company Secretary	226,339	25,302	-
Mr S Kerrison - Chief Operating Officer	206,468	21,493	-
Mr G Pitt - General Manager Freight Services (commenced July 2014)	171,071	26,740	-
Mr J Drew - General Manager Asset Management	195,177	24,879	-

<b>Senior executive</b>	<b>Base salaries</b> \$	<b>Superannuation *</b> \$	<b>Termination benefits ****</b> \$
Mr D White - Chief Executive Officer	305,236	32,203	-
Mr S Dietrich - Chief Financial Officer / Company Secretary	230,593	24,567	-
Mr S Kerrison - Chief Operating Officer	210,311	22,220	-
Mr J Drew - General Manager Asset Management	155,665	20,185	-
Mr C Simpkins - General Manager Freight Services (ceased August 2013)	30,600	3,791	10,380

\* Superannuation represents employer contributions including amounts salary sacrificed.

\*\* Movements in leave accruals are included in the table above in Other Benefits.

\*\*\* Short term incentive payments are paid during the current year for achieving specified performance goals in specified timeframes in the prior year.

\*\*\*\* Termination benefits represent annual and long service leave paid on termination.

\*\*\*\*\* Vehicles represents amounts included as part of total remuneration.

<b>Short term incentive payments ***</b>	<b>Vehicles *****</b>	<b>Other benefits **</b>	<b>Total 2015</b>
<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
28,448	29,975	16,098	391,450
40,000	12,843	4,948	309,432
19,780	13,746	10,539	272,026
18,208	15,000	4,852	235,871
17,808	-	13,077	250,941

<b>Short term incentive payments ***</b>	<b>Vehicles *****</b>	<b>Other benefits **</b>	<b>Total 2014</b>
<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
42,900	18,359	11,084	409,782
35,000	13,338	15,706	319,204
29,900	14,276	10,870	287,577
-	-	16,718	192,568
-	3,972	(2,784)	45,959

## 28. Related Party Transactions (continued)

In accordance with Accounting Standard AASB 124 Related Party Disclosures, the Company notes that Short Term Employee Benefits were \$1,546,609 (2014 \$1,354,931), Other Long Term Employee Benefits being the movement in accrued annual and long service leave were \$49,514 (2014 \$51,594), Post Employment Benefits were \$179,391 (2014 \$149,838) and Termination Benefits were \$Nil (2014 \$10,380).

### (b) Transactions with Other Related Parties

Mr David George is former CEO of the Rail CRC Limited. Rail CRC Limited was paid \$Nil (2014: \$30,000) for participation contribution fees. The amount billed was based on normal market rates for such services and payable under normal payment terms.

Mr Robert Annells is Chairman of Forestry Tasmania Pty Ltd whose ultimate owner is also The Crown in Right of Tasmania. During the year the Company was engaged by Forestry Tasmania Pty Ltd to undertake rail freight services on commercial terms and conditions. Mr Annells excluded himself from any discussions or decisions made by the Company with respect to these services. The revenue from Forestry Tasmania Pty Ltd for the year was \$943,000 (2014: \$1,056,000).

The Company from time to time requires access to the rail infrastructure assets via properties adjacent to the railway line with agreement from landowners. An agreement is in place with an entity related to Mr Robert Annells that provides for access to the railway line and for storage of materials on normal commercial terms and conditions for access rights. Mr Annells excluded himself from any discussions or decisions made by the Company with respect to this agreement.

### (c) Ultimate owner

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

## 29. Board Approved Overseas Travel

Overseas travel undertaken by the Directors, the Chief Executive Officer and other employees of the Company was as follows:

	<b>2015</b>		<b>2014</b>	
	<b>Total</b>	<b>Total</b>	<b>Total</b>	<b>Total</b>
	<b>Trips</b>	<b>Cost</b>	<b>Trips</b>	<b>Cost</b>
Overseas travel by the Directors and the Chief Executive Officer	Nil	\$ Nil	2	\$12,066
Overseas travel by other employees	Nil	\$ Nil	40	\$365,442

In the prior year overseas travel incurred was required in connection with the locomotive, wagon, track maintenance equipment and train control capital projects. The trips and costs incurred were allowed for in the estimates for each of the capital projects and formed part of the design, management and quality assurance processes in procuring these new assets.



## 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 2015 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;

(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. The directors draw attention to note 21 which includes a statement regarding the Company's dependence on government contributions;

(d) the directors have been given the declarations as set out in S295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2015.

Signed in accordance with a resolution of the directors:



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Robert Annells PSM  
**Chairman**

Dated at Launceston this 4th day of August 2015.

## **Independent Auditor's Report**

### **To the Members of Tasmanian Railway Pty Ltd**

### **Financial Report for the Year Ended 30 June 2015**

#### **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 2015 and the statements of profit or loss and other comprehensive income, changes in equity and 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 2015 and its financial performance for the year ended on that date
  - (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.

#### *The Responsibility of the Directors for the Financial Report*

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view 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, the Directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report complies with International Financial Reporting Standards.

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## *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 my judgement, including the assessment of risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, I considered 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
- 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*, provided to the Directors dated 4 August 2015 and included in the Directors' Report, would be unchanged if provided to the Directors as at the date of this auditor's report.

## **Tasmanian Audit Office**



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

Hobart  
10 August 2015

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**TASRAIL**

Published October 2015