

Annual Report **2009/2010**





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Our ref: TR-011010

Hon. Lara Giddings MP
Minister for Infrastructure and
Member, Tasmanian Railway Pty Limited
Level 10
15 Murray Street
HOBART TAS 7000

Hon. Michael Aird MLC
Treasurer and
Member, Tasmanian Railway Pty Limited
Level 9
15 Murray Street
HOBART TAS 7000

Dear Ministers

ANNUAL REPORT 2009/2010

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

In accordance with Section 22 (1) (b) of *the Rail Company Act 2009*, we hereby submit for your information and presentation to Parliament, the report of Tasmanian Railway Pty Limited covering the period 1 December 2009 to 30 June 2010.

Signed in accordance with a resolution of Directors.

Yours sincerely,

Bob Annells
Chairman

11 October 2010

Tasmanian Railway Pty Ltd
ACN 139 383 761
ABN 83 139 383 761



Introduction

On 1 December 2009, Tasmanian Railway Pty Limited (TasRail) was established under the *Rail Company Act 2009* as a vertically integrated rail business.

TasRail was created by combining the below rail assets (track and associated infrastructure), that the State had assumed responsibility for in 2007 with all of the above rail (rolling stock, workshops and depots) and business assets purchased from Pacific National in late 2009. At the time of the purchase the State also purchased the Melba Line and incorporated ownership of the Burnie Ship Loader and other facilities used to service the West Coast. The Rail Management Branch within the Department of Infrastructure, Energy and Resources and charged with administering funding from the Australian Government for the infrastructure upgrade programme also transferred to TasRail late in 2009.

This completed the amalgamation of the whole operating rail network within Tasmania, together with responsibility for all future upgrading of the below and above rail elements of the business, thus bringing together all of the components required for a successful, vertically integrated freight rail business.

TasRail is focused on restoring rail as an integral component of an effective and efficient transport system in Tasmania.



Andrew Wright – Rail Operator

Corporate Governance

The Directors are responsible for the corporate governance and strategic direction of the Company, ensuring that its business and affairs are conducted and managed in accordance with sound commercial practice, consistent with Australian Stock Exchange corporate governance principles and with the goals specified in the Corporate Plan.

The Directors are responsible to the Shareholder Members for the operations and performance of the Company.

Board performance evaluations and appointments are managed in accordance with the requirements of the Companies Act (Commonwealth) and the various rules and Treasury-issued guidelines that apply to State-owned Companies.

Disclosure of interests of the Directors are reviewed monthly.

There are five Committees of the Board of Directors. Each has its own charter and accountabilities as per the following summary:

Board of Directors



The TasRail Board of Directors – from left: Roger Gill, Sarah Merridew, Chairman Robert Annells, Robert Neil, John Fullerton

Operations and Safety Committee

Chairman John Fullerton

- Occupational Health and Safety including compliance with operational safety obligations
- Environmental Management
- Review of Risk Management systems
- Business case development for above rail requirements including rollingstock
- Rollingstock procurement
- Workshops and equipment replacement
- Oversight of commercial relationships

Capital Infrastructure Committee

Chairman Roger Gill

- Development of forward capital expenditure programmes and budgets for below rail assets
- Oversight of the contract procurement process including scheduling of works to fit budget and operational needs
- Preparation of business case for investment in new infrastructure
- Oversight of reporting obligations for below rail infrastructure
- Project Management systems

Finance, Audit and Compliance Committee

Chairman Sarah Merridew

- Financial Management systems
- Financial Statements and reporting
- Oversight of external and internal audits
- Compliance with laws and regulations
- Review of Capital Expenditure proposals (forwarded by the Capital Infrastructure Committee)

Strategy and Risk Management Committee

Chairman Robert Neil

- Development and monitoring of a comprehensive Risk Register
- Oversight of Risk Mitigation strategies and plans
- Insurance
- Oversight of the strategic planning process
- Legal and regulatory monitoring

Remuneration Committee

Chairman Robert Annells

- Appointment of the Chief Executive Officer including determination of salary and contract conditions
- Appointment of the Company Secretary
- Employee incentives
- Enterprise Agreements



Board of Directors



Robert Annells was Executive Chairman of Connex Melbourne, the operator of the Melbourne commuter rail system, from 2003 to 2009. During this time he was also Chairman of Veolia Australia and of two subsidiary companies, Connex Auckland and Mainco Melbourne. Veolia is the largest privately owned transport operator in Australia and Mainco Melbourne was the maintainer of all rolling stock and infrastructure involved in the Melbourne train system.

Robert is also the current Chairman of the Tourism Tasmania Board and a Director of the Tasmania Development Board. He previously held a number of senior positions in Tasmania including Director-General of the Lands Department and Secretary of the Department of Tourism, Sport and Recreation.

Robert Annells
Executive Chairman

Appointed 23 November 2009



John Fullerton's experience in the railway industry spans more than 25 years, across strategic planning, business development, customer service, operations and engineering. He is currently Chief Executive Officer of FreightLink, a position he has held since September 2004. He was formerly Divisional General Manager (Operations Services) at Pacific National, Australia's largest private rail operator. Prior to that he was the Chief Operating Officer of the National Rail Corporation, a role he held for eight years before Pacific National's acquisition of the business in February 2002.

John is currently Chairman of the Co-operative Research Centre for Rail Innovation, a Director of the Rail Industry Safety and Standards Board and a member of the Australian Institute of Company Directors and the Australian Logistics Council.

John Fullerton
Director

Appointed 17 December 2009



Roger Gill enjoyed a long and successful career with the Hydro Electric Corporation, spanning more than 30 years. During this time, he held a number of senior positions including Executive General Manager from 2004 to 2007. He now operates his own successful international hydro consulting business.

Roger is a current Director of the Tasmanian Irrigation Development Board and of the Southern Regional Water and Sewage Corporation. He is also the current Vice President of the International Hydro-power Association.

Roger Gill
Director

Executive Director from
23 November 2009 to 28 April 2010

Appointed 4 November 2009



Sarah Merridew is a Chartered Accountant and a former Partner and Managing Partner (for Tasmania) of Deloitte Touche Tohmatsu. She has extensive experience in providing audit, risk management and business advisory services to both the public and private sectors and is a former Director of the Tasmanian Public Finance Corporation and Tasmanian Perpetual Trustees.

Sarah is currently a Director of MyState Limited and Ben Lomond Water, and Honorary Treasurer of the Royal Flying Doctor Service Inc. (Tasmanian Section). She is actively involved with numerous other community organisations.

Sarah Merridew
Director

Appointed 17 December 2009



Bob Neil's principal career is in the oil and gas industry. He has held a number of Senior Executive roles in engineering, gas marketing and strategic planning with Esso Australia. He was Director General of the New South Wales Department of Energy from 1996 to 2001 before accepting a four year appointment with the Tasmanian Government to manage the State's entry to the National Electricity Market.

Bob previously served as a Non-Executive Director of the Northern Territory Power and Water Corporation from 2005 to 2009. He is a Fellow of both the Institute of Engineers Australia and the Australian Institute of Company Directors.

Robert Neil
Director

Appointed 4 November 2009



William Dewar
Company Secretary
Reports to the Board

Appointed 4 November 2009

From the Chairman



Robert Annells – Executive Chairman

TasRail was established in its own right effective from 1 December 2009. Much work had been undertaken by the Department of Infrastructure, Energy and Resources (DIER) and the Office of the Crown Solicitor to put in place the legal and administrative framework to enable the Company to commence operations from that date.

As recorded elsewhere in this Report, the Company was established as a vertically integrated freight railway incorporating all below and above rail assets, either in the ownership of the Crown (below rail) or purchased from Pacific National. Also purchased was the freight business and all assets associated therewith from Pacific National, including assuming responsibility for all existing customer contracts. Existing staff were all offered the opportunity to transfer to the new business and without exception this offer was taken up.

At the same time, the State Government incorporated within TasRail the staff and responsibilities undertaken to that point by the Rail Management Branch of DIER. This Branch was established in 2007 when the State took back responsibility from Pacific National for all below rail assets. As part of that transaction, the State assumed responsibility for planning and implementation of the below rail infrastructure improvement programmes funded by the Commonwealth Government, firstly by the Rail Rescue Package, and then by additional funds under the Nation Building Program.

As part of the purchase from Pacific National the State acquired all of the assets of the Melba Line, including loading facilities at both ends and, in particular, the Ship Loader at the Port of Burnie. This transaction was of particular significance given that, for the first time in the history of Tasmania, it brought all freight rail infrastructure and assets under one ownership and it can now truly be said that the new Company is both vertically integrated and comprehensive in its scope of operations.

The first task for the Board and management of the new Company was to make a realistic assessment of its current position and to advise Government as quickly as possible as to its financial and other needs to enable it to achieve the objectives set for it by its new owners. It was agreed that the Company would prepare within the first three months a comprehensive, if interim, Business Plan that would enable it to broadly identify its work programme and hence funding requirements for the next four years.

Work commenced against this very tight timetable and much credit to the successful achievement of this ambitious plan must go to Roger Gill, the Acting Chief Executive of the Company. With a very limited senior management team, an excellent document was produced by mid-February, and formed the basis for successful discussions with Treasury and DIER, securing for the Company the majority of both its short and longer-term funding needs.

It needs to be understood that the State accepts responsibility for the provision of funds for above rail operations, including rollingstock and maintenance, whilst the Commonwealth has largely accepted responsibility for below rail funding. The latter is secured via a Memorandum of Understanding entered into between the Commonwealth and the State in 2008/09 that indicated the level of Commonwealth funding for below rail enhancement, through to the conclusion of the 2013/14 financial year.

In developing its Business Plan, the Board acknowledged that the existing rollingstock fleet is either at, or very close to, a life expired condition. Whilst undoubtedly some upgrade work can be done to extend the life of a part of the wagon fleet, very little of the locomotive fleet falls into this category. Whilst expenditure of some funds will extend the life of a proportion of that fleet, for safety and general operational reasons it is the view of the Board, supported by Government, that a new locomotive fleet needs to be acquired over the next three years.

The Government has also recognised that historic investment in maintenance of both the below rail infrastructure and the rollingstock has not been undertaken at a sustainable level. A funding request from the Board to permit a substantially enhanced maintenance programme on all aspects of the business has been approved, and funds provided.

In relation to Commonwealth funds, a successful application was made to bring forward the remaining funds within the Rail Rescue Package and this has enabled urgent work, often of a safety critical nature, to be brought forward.

Given the scale and nature of the task confronting the new Company, and particularly having regard to the recommendations of two reports commissioned immediately upon commencement of the Company, (in relation to rail safety and occupational health issues), the Board successfully requested additional funds from the State Government to the extent of \$11 million and is most grateful that this request was actioned in a particularly timely manner.

The management was very cognisant of the fact that relations between the Company's customers and the previous owners had been less than ideal and moved quickly to establish regular communications with all of our customers with a particular emphasis on addressing operational issues that were limiting their use of rail.

Considerable work was done to ensure that enhanced levels of reliability were available to our customers and that, at the very least, open and honest communication established. This policy of open engagement has been continued by the Company with not only its customers but all of its major stakeholders and significant improvements are being achieved in both communication and credibility. Ultimately of course, words are not enough and we, as a Company, will need to continue the marked improvement already evident in such aspects as on-time running and

preventing derailments well into the future. This will remain a priority for all concerned at TasRail.

The other priority is safety and in this regard the Company has continued as it started, with regular professional and independent reviews of its procedures and processes to ensure that the safety of our staff; of our contractors and of the general public, are maintained at the highest levels. Regular and detailed reporting on all incidents to the Board and rigorous follow up of improved processes and procedures, identified as part of these reviews, is undertaken from both a Board and senior management level.

The Company has indeed been fortunate to inherit a particularly dedicated and competent workforce. Over the last decade at least, they have consistently been required to operate substandard equipment against a culture of minimal investment in either the hardware, software or people that were needed. This was a poor situation and the fact that this railway was still operating at the 1st December 2009 is a tribute to the dedication of the staff we inherited.

It is important to recognise that TasRail is a service provider and that as such in many cases its services are highly contestable by the road transport industry. In other words, we are in a very competitive environment and with the geographic limitations we face, making the operation of freight railway in Tasmania a profitable business is a significant challenge.

This is a challenge the Board and management have accepted with enthusiasm. We are convinced there is not only a place for rail freight in Tasmania, but an absolute need.

The societal, let alone economic consequences of failure to achieve a competitive position for rail freight are well documented but what is perhaps less understood is the very significant environmental issues that surround rail versus road. Simply put, rail freight has around 25% of the carbon footprint of

the equivalent road transport, and in this day and age such a competitive position must not be squandered.

If TasRail is to achieve its full potential, and in the process, continue to reduce its call upon the public purse for financial support, then no stone can be left unturned in seeking to make the Company customer focused, safety conscious and environmentally credible.

This is the task the Board has set itself and the task that the new management of the Company is approaching with great enthusiasm.

We look forward to the challenge ahead and, in looking back over the first seven months of operation, I would like to sincerely thank my fellow Board members who have been universally enthusiastic, hard working and professionally competent in their deliberations and assistance to me as Executive Chairman and to Roger Gill as Acting Chief Executive, in creating momentum in relation to the establishment of this Company.

I thank the Minister and her predecessor Graeme Sturges for their support and it would be remiss if I was not to also thank Don Challen, Secretary of the Treasury, and Norm McIlfratrick, Secretary of DIER, for their great support when it was most needed in the very early days of our establishment.

Finally to the staff and to Damien White as the new Chief Executive who took up his position in April this year, I thank you for your commitment to the task and your professionalism. It has indeed been a pleasure dealing with each and every one of you.

Robert Annells
Executive Chairman

From the Chief Executive



Damien White – Chief Executive Officer

I arrived at TasRail in April 2010, following a career of 29 years with Pacific National, National Rail and Australian National. I am excited to be playing a part in the revitalisation of the railway freight operations in Tasmania.

On arrival, my first impressions were of an organisation that inherited an experienced and committed workforce and one that enjoys widespread community support for its purpose. Our challenge is to transform TasRail into an organisation that provides significant, tangible value to the Tasmanian economy.

As a company, we are in the early stages of development. Since taking up the position I have been working with the Board to create an optimal organisation structure to effectively deliver our plan. We are also continuing to develop and implement standards and systems to support the various functions and compliance requirements. Of these, none can be more important than the health and safety of our workforce.

Health and safety is a personal passion of mine and paramount to the success and values of any organisation. I am committed to achieving a workplace where everyone steadfastly works to the principle of "If it's not done safely, it's not done properly". As we seek to build organisational capability, it is essential that we develop frontline

leadership and empower all employees and contractors to actively contribute to safety improvement. At the end of each working day, employees and contractors must have confidence they will go home safe and satisfied with the work they have performed and be acknowledged for their contribution.

Much work continues to be expended on the planning, development and implementation of our substantial maintenance and capital works programme. We have an ambitious plan that will take time and significant funding to achieve. In the meantime, we are concentrating on maintaining and improving our service reliability and I am pleased to report that during the reporting period, we achieved a steady improvement in service quality to our customers.

I want to publicly acknowledge and thank the Executive Chairman, the Board and particularly Roger Gill as interim CEO, for the excellent and significant work associated with the start-up of the business including the development of a comprehensive Rail Recovery Plan. It has been an enormous task but has ensured a robust operating and compliance framework and a strong foundation for our future. It has also allowed me to commit more time to the work required to create a culture that supports business objectives.

I recognise that our workforce has endured years of consistently needing to be reactive, constantly fixing broken and inadequate equipment and resources. As an organisation, we need to shift to a culture that is proactive and focused on serving customers, improving productivity, fostering innovation and spending taxpayer funds wisely and efficiently.

We must also develop and maintain quality relationships with our customers and other key stakeholders including government and heritage and tourism rail operators. This has been, and will continue to be, a key focus for the business.

TasRail aspires to be a leader in the freight transport business in Tasmania and a preferred employer. We want to be highly regarded for the way we look after our people, our safe operations, our service reliability and the development of innovative logistic solutions.

While there is much to do, I want to congratulate everyone across the organisation for their considerable efforts throughout our first reporting period.

Damien White
Chief Executive Officer



Our Business

We are a new State-owned company enthusiastic about our future and cognisant that it is not without challenge.

TasRail is structured as a single entity, with two main business segments:

- (1) Below rail – ownership, management and operation of the rail track infrastructure; and
- (2) Above rail – ownership, management and maintenance of the rollingstock fleet and ship loading facility, network access management and the operation of all rail freight services

TasRail inherited a business characterised by many decades of capital underinvestment. This has critically constrained the ability of rail to contribute to the business development of the State and has led to additional volumes of freight being carried on the road network.

Our goals and objectives

Our immediate focus is to restore rail as an integral component of an effective and efficient transport system in Tasmania.

Investment in the Tasmanian rail system is aimed at restoring freight rail to a reliable and sustainable operating condition, creating a platform for growth.

Since we were established on 1 December 2009, we have been working hard to:

- Operate safely
- Meet customer delivery schedules
- Improve efficiency by increasing load capacity
- Reduce derailments and the costly damage they cause
- Increase efficiency with high locomotive and wagon utilisation
- Build and develop a sustainable workforce

Our future

We recognise that the reinvestment and revitalisation phase of the business will take time, but looking beyond the Rail Recovery phase TasRail seeks to:

- Re-establish reliable and competitive rail freight services to meet current customer requirements
- Operate in a commercial manner by improving customer revenues and minimising costs
- Create business value by pursuing growth opportunities on a commercial basis
- Be recognised as a sustainable business and a preferred employer

TasRail – fast facts

- Employs 200 men and women
- Manages access across the railway network
- Transports approximately 2.5 million tonnes of freight per year
- Is the preferred transport service provider for bulk cement, bulk mineral concentrates, coal, paper and paper making products



Lael Killworth – Locomotive Driver

Our People



Pete Meissner – Track Maintainer

Our workforce

Our best asset is our workforce. They have consistently contributed to the rail business in Tasmania across generations, demonstrating resilience through trying times. With the average length of service at more than 25 years, a new generation of staff coming through has the opportunity to understudy and benefit from the vast knowledge, skills and experience within the organisation.

TasRail has a highly skilled and dedicated workforce with operations statewide and depots at Launceston, Hobart, Devonport, Burnie and Conara.

Our workforce is charged with train control functions, train driving and shunting operations, infrastructure maintenance, freight loading, wagon and locomotive maintenance, as well as ancillary and support functions such as ship loading, engineering, procurement, human resources and general administration.

At the time of TasRail's establishment, we engaged the workforce in its entirety from the previous owners. This was achieved via Employment Agreements that mirrored Terms and Conditions in place at the time, and with a view to agreeing new arrangements later in 2010.

As a new and evolving business, we have been working to develop and communicate an appropriate suite of standards, policies, systems and procedures in accordance with leading industry practice.

A challenge however, is to attract and retain our skills base in what is a highly competitive market, under pressure from economic activity in other states. Acknowledging that we cannot compete with the wages being offered by the

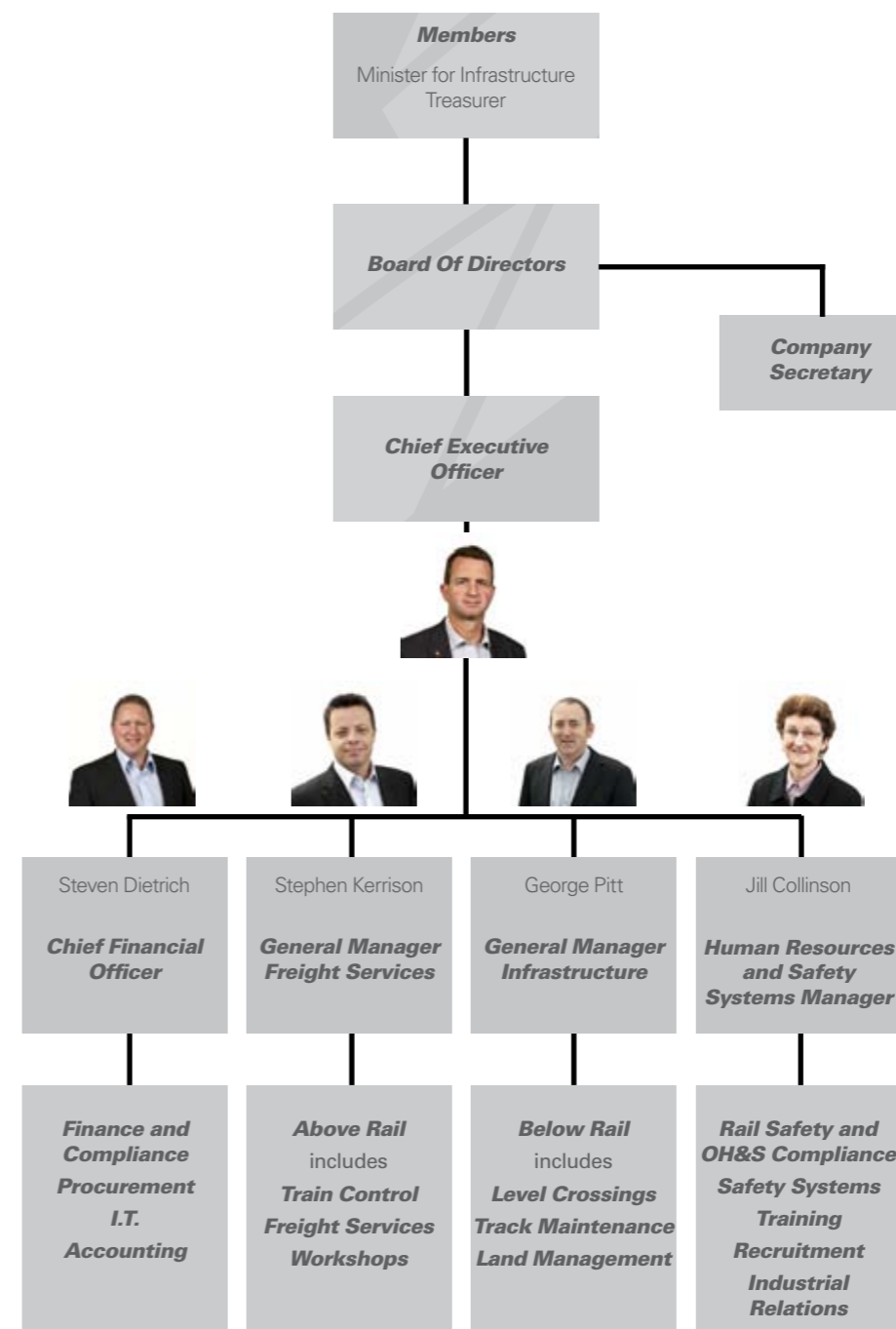
booming minerals sector interstate, our aim is to ensure that we offer fair pay for work and an attractive work/life balance, that is supported by a strong commitment to the health, safety and wellbeing of our workforce.

TasRail recognises there is work to be done to raise the profile and diversity of careers available in the rail sector, but we believe that an important consideration for any person looking to join or stay with TasRail will be our values as an organisation.

In addition to providing training and skills development opportunities, we are excited that the rail sector in Tasmania is again in a position to recruit trainee drivers and apprentices.

Performance Measure	At start-up (1 December 2009)	As at 30 June 2010
Total Employees (includes labour hire)	168	200
Percentage of workforce as labour hire	22 per cent	15 per cent
Number of female employees	12	15

Executive Team



Health and Safety

Protecting our workforce and the community from harm is a priority for TasRail. We are committed to being a leader in safety, health and environment performance for the rail industry.

The Board and the TasRail Executive Team are unwavering in their commitment to improving safety performance and ultimately, to the elimination of injuries.

One of the immediate actions by the Board was to commission a safety audit of the previous owners' Safety Management System across the organisation. The audit identified a number of gaps, and these findings have been used to develop a Safety Action Plan. Closing these actions is a priority and we are making steady progress on this front.

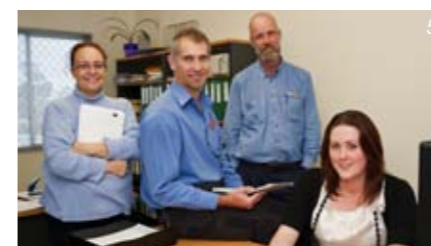
Another critically important project underway is to ensure that TasRail operates with an appropriate Risk Register and Risk Mitigation Strategy.

We enlisted the services of Dupont and other safety and risk management experts to help us undertake a comprehensive review, not only of operating plant and equipment, safety and OH&S but also of practices and procedures applied throughout the business. The objective was to ensure that we eliminate and/or control identified risks consistent with recognised and acceptable industry practice.

TasRail is seeking to learn from the Dupont experience in all aspects of safety improvement, particularly workforce safety engagement and the development of a safety culture that genuinely believes in zero harm.

Performance Measure	December 2009 ¹	Quarter 3 As at 31 March 2010	Quarter 4 As at 30 June 2010	TOTAL
Number of medical treatments	0	1	1	2
Number of Lost Time Injuries (LTI)	0	3	3	6
Number of safe working breaches	4	4	9	17
Number of level crossing collisions	0	0	1	1
Number of 'near miss' incidents at level crossings	0	4	3	7
Number of 'near miss' incidents on rail network not at level crossings	0	1	1	2

¹ TasRail was established on 1 December 2009 and therefore performance data prior to this time is not available for publication.



TasRail has a good foundation with respect to safety, but improving the safety of our business is critical to our future success. We will not be able to attract and retain people if TasRail is not seen as a safe place to work. Likewise, customers will not want to deal with an organisation that does not adequately manage the safety of its operations.

We have a sound, integrated Safety Management System encompassing occupational health and safety, rail safety and environmental legislation.

Our people know and understand the inherent risks of our industry and they are committed to continuously improving the safety of our business.

TasRail places a high value on consultation with our employees and to achieving a culture that empowers the workforce to assume responsibility for safety, health and environmental performance.

Our Safety, Health and Environment (SHE) Committees provide for teams of employees, representing each of the different work groups, to be directly involved in the resolution of issues and decisions pertaining to health, safety, environment and welfare at work.

SHE Committee members are released from their normal work duties to attend meetings and to their subsequent responsibilities, for example conducting audits, sharing information and seeking employee views and opinions.

Safety incidents are investigated and findings reported to the Rail Safety Regulator. The results of the investigations are communicated with the workforce to create increased awareness and to prevent reoccurrence.

- From left:
Craig Osborne – Training and Compliance Officer
Darrell Cooley – Locomotive Driver
David Payne – Locomotive Driver
Damien White – Chief Executive Officer
- Michelle Quinn – Accounts and Procurement Officer
- From left:
Simon Chandler – Operations Manager
Dale Walker – Train Control
- From left:
James Hipwood – Company Accountant
Steven Dietrich – Chief Financial Officer
- From left:
Teresa Davenport-Vermaak – Safety Data Co-ordinator Analyst
Dean Stothard – Safety Co-ordinator
Craig Osborne
Chloe Facer – Human Resources Assistant
- Steven Riddle – Locomotive Technician



Our Network

The operational network extends from Hobart to Western Junction and then to the Ports of Bell Bay in the north-east and Burnie in the north-west. The north west network includes a line between Railton and Devonport, used to service the cement industry. Connections are also provided to Fingal in the east and Boyer in the Derwent Valley. The Melba Line connects the west coast to Burnie.

The non-operational network includes the line extending from Burnie to Wiltshire (the Wiltshire Line), the line extending from Coldwater Creek junction to Tonganah (the North East Line), the line extending from Boyer to Maydena (the Karanja Line) the Hellyer Spur line off the Melba line and the line running from the Derwent Park Junction to the former siding at the Risdon Smelter (the Zinc Works Line).

The rail network is a priority freight network in accordance with the approved access framework.

Generally speaking, the rail network was built through some of the toughest terrain in the country. From the centre of Hobart to the startlingly deep gorges of the Melba Line on the west Coast, it presents a unique set of challenges. Characterised by tight radius curves and ruling gradients of up to 1 in 40, it is difficult to maintain. A narrow gauge railway, built in the late 1800s, the current line still uses much of the original formation and alignment.



Infrastructure

Below Rail

The Tasmanian and Australian Governments have contributed significant funds to rescue the Tasmanian railway.

Through a Memorandum of Understanding, the Australian Government has committed \$204 million to the Tasmanian Rail Network. This consists of a \$78 million Rail Rescue Package, \$55 million for the Rhyndaston and North-South Capacity Improvement Project, and a further \$71 million for capital projects across the network to perform historically deferred maintenance works.

The Rail Rescue funding has been delivered through a series of projects and is forecast to be fully expended by March 2011. Funded projects include:

- Re-sleepering of 180,000 sleepers
- Re-railing in excess of 30 kilometres
- Drainage works
- Formations works
- Upgrades to crossings
- Bridge replacement

Track upgrades

Funding from the Australian Government for the re-alignment works and other capital upgrade works ends in 2013/14. Negotiations will be needed to secure additional funding beyond this date in order to undertake additional, required works beyond this date. The Tasmanian Government initially contributed \$40 million over ten years towards ongoing maintenance. However, with the acquisition of the railway in 2009, the commitment by the State Government to the maintenance of the network has significantly increased to include funding of additional maintenance activities and capital investment in plant and equipment.

Since start-up, a significant amount of work has been required to identify, plan and inform the substantive array of maintenance, upgrade and capital works required across the network. In most cases, peer review advice is sought. This includes, but is not limited to:

- *A complete review of rail stress management procedures, including the development and implementation of appropriate work practices. Rail stress is caused when variations in temperature cause the railway lines to expand and contract. Good management practices are required to ensure the ongoing integrity of the track and prevent heat related track buckles and broken rails during extreme temperatures*
- *Development and delivery of training for employees and contractors to ensure competency and compliance with track engineering standards*
- *Review of engineering standards for all aspects of track infrastructure. This includes standards for track maintenance activity, signals and level crossing maintenance as well as construction standards*
- *The development, implementation and management of a cohesive database enabling assessment, prioritisation and programming of capital works*
- *Review, development and implementation of maintenance and land management practices*



1. Doug Rowlings – Relief Superintendent Infrastructure

Following on from the work commenced by the Department of Infrastructure, Energy and Resources, TasRail is progressing with a condition analysis of all infrastructure, including but not limited to bridges, culverts, sleepers and rail across the entire network. This data, together with the work outlined above, is being used to prioritise the capital and maintenance works programmes.

As per the Rail Maintenance and Management Deed between Pacific National and the Tasmanian Government, a capital upgrade programme commenced in 2008 to ensure track integrity and suitability for traffic requirements. During the summer of 2009, TasRail encountered an increased number of heat related track buckles with the majority of these occurring in areas where the track had been disturbed whilst work such as sleeper replacement and re-railing was undertaken under the Rail Rescue Package. This has created significant operating challenges but has enabled TasRail to learn important lessons to ensure that future work minimises the potential for a repeat of this situation.

Infrastructure Maintenance

TasRail's infrastructure division is responsible for delivering maintenance and capital programmes across the network assets. A core team of experienced track staff undertake regular inspections. Operational tracks are currently inspected every 96 hours. Track maintenance activities include re-sleepering, re-railing, drainage works, bridge works, tunnel maintenance and removal of rail defects. In addition, TasRail has a substantial number of level crossings that must be maintained and fully operational at all times.

Maintenance gangs are based in Hobart, Launceston, Conara, Devonport and Burnie. They are tasked with the operation and maintenance of hi-rail vehicles and on-track infrastructure, including equipment such as tamper machines. Tamper machines are used to lift and align the track to the correct level, to set an appropriate cant on curves and to 'pack' sleepers into position.

Our Asset Management team provides support to the Infrastructure group with planning and scheduling maintenance and capital works, project management, land management and legal support. As the rail network covers an extensive, geographic area, crossed by other infrastructure, easements and roads, the Asset Management group also manages network licence applications and approvals.

In addition to the above, we continue to maintain, replace and, where appropriate, upgrade our inventory of plant and equipment to ensure it is safe to a standard that is fit for purpose. A necessary improvement has been the replacement of the TasRail fleet of ageing and life expired infrastructure work vehicles. At a total cost of \$4.7 million over 18 months, the fleet includes 32 vehicles and 17 hi-rail vehicles.

Below Rail – fast facts

- 632 kilometres of operational rail track
- 213 kilometres of non-operational rail track
- More than 1.3 million sleepers
- 355 bridges
- More than 120 active level crossings, 122 passive level crossings and in excess of 300 private (accommodation and farm) level crossings
- Three tunnels
- Four major rail terminals
- Rail formation and embankments



Level Crossing Safety

TasRail manages the integrity of all level crossings across the network to ensure that the equipment operates as required whenever a train approaches.

Our immediate priority has been to eliminate conditions that could potentially lead to warning devices failing to work. For example, replacement and upgrade of batteries and chargers.

There are more than 120 active level crossings across the network and a similar number of passive level crossings. In addition, there are more than 300 private (accommodation and farm) level crossings.

Our infrastructure team is responsible for maintaining all level crossings. To this end, work is continuing to improve signage and other safety measures to ensure the safety of the community and our workforce.

In the medium term, TasRail is working with the Department of Infrastructure, Energy and Resources and the Rail Safety Regulator to re-establish a level crossing safety forum with all of the relevant stakeholders.

The objectives are twofold – to undertake a complete risk analysis of all level crossings and identify appropriate mitigations, and to develop and implement community education, awareness and enforcement initiatives.

In late 2009, the Australian Government committed \$3.96 million under the Nation Building Economic Stimulus Plan to install Advance Warning Systems at 13 level crossing sites across Tasmania.

These are measures beyond those required by Australian Standards and provide a highly visible alert for road users, to warn them that a train is approaching.



Above Rail

Network Access

TasRail provides full network access control through a Train Control Centre located at the East Tamar depot. The Train Control Centre is staffed 24 hours/7days per week by highly skilled and experienced Train Controllers.

Through the use of a Track Warrant Control System, the Train Control Centre provides safe working access to the entire Tasmanian Rail Network. Using a dedicated, statewide radio system, the Train Control Centre monitors the network and network users. The Train Control Centre generates incident reports and assists with train driver rostering. It is also the emergency contact for the general public and emergency services.

The current train control system is a non-automated type that requires considerable human interaction and compliance. TasRail will upgrade the train control system to a 'positive train control system' over the next two years.

Positive train control is a modern, computer-based system used by most rail systems worldwide. It utilises GPS technology to ensure that the location and progress of each train or track vehicle on the network is monitored. An onboard computer on each locomotive and track vehicle uploads data from the Train Control Centre to establish its authorised operating zone. The onboard computer then tracks movements using GPS to ensure defined limits are not breached. This system will provide up to date track speed limits, that are displayed for the driver/operator and monitored.

Train operations

The above rail business operates up to 72 train services per week. Products transported include:

- bulk commodities such as mineralised ore from the West Coast mines

- bulk cement from Railton
- coal from the Fingal Valley
- Intermodal freight (containers) such as paper, zinc and other products from Hobart and northern ports

Rollingstock

Our locomotive fleet is at the end of its economic life, imposing an escalating and ongoing maintenance burden. Since start-up, TasRail has been hampered by poor fleet availability and hence, poor reliability.

Early in 2010, the TasRail Board successfully presented a case to the State Government for the replacement of the rollingstock fleet. With the average age of the current fleet being in excess of 30 years, in most cases it results in locomotives being of obsolete and unsupported design. This in turn, restricts the availability and compatibility of spare parts and leads to an increase in operating costs, track wear and potentially train derailments, as well as reduced availability (through breakdowns). Combined with the lack of inter-operability between the three locomotive types and multiple wagon configurations, operating efficiency and capacity continues to represent a significant challenge for the business.

Locomotives

Early in 2010, TasRail sought advice from consultants to assist with the task of procuring new rolling stock. These consultants are assisting TasRail to develop a scope of requirements for both locomotive and wagon replacement. TasRail will also look to the New Zealand experience to see what lessons can be learnt. Kiwi Rail are currently in the midst of replacing a similar aged locomotive fleet. The scope will take into account engineering design, efficiency, suitability for the network, availability etc. The analysis will consider current and forecast

volumes and planned improvements in train performance and efficiencies for both bulk and intermodal freight. Whilst the actual number and design of locomotives to be purchased is yet to be determined, it is expected that TasRail will look to a phased acquisition of potentially up to 19 locomotives to replace the current fleet.

The process of procuring and commissioning a new fleet of locomotives is not one that will happen overnight. It will be one of the most important investment decisions by the Company and our future success will depend heavily on making the right decision. In the interim, the age and lack of compatibility across the existing fleet exacerbates the task of service scheduling. The Company is undertaking enhanced levels of maintenance to the existing fleet and has been able to improve reliability to better meet customer requirements. This is only sustainable over a relatively short period whilst new rollingstock is secured.

Wagons

The age and incompatibility of the inherited wagon fleet has been a contributing factor to the number of reported derailments. TasRail's capital investment plan includes:

- Purchase of 85 new container (intermodal) wagons
- Upgrade of a further 90 container wagons
- Replacement of ballast wagons to replace the life expired fleet
- Replacement of the existing cement wagons
- Upgrade of the bulk wagons used to transport ore and coal

Eight ballast wagons were purchased from Queensland Railway during the first half of 2010 to replace the existing life-expired fleet. These wagons were subsequently automated by TasRail

to improve safety and productivity. Ballast wagons are used to transport materials on the rail track during maintenance activities.

Work continues to settle on the final specification (engineering design, components, unit cost etc) for the procurement of new wagons and the requirements for the overhaul of the remaining fleet. Meanwhile we are working to upgrade a number of wagons to meet existing customer service needs.

Maintenance

Maintenance functions for both locomotives and wagons are mostly carried out at our major maintenance facility at East Tamar and includes:

- Minor and major servicing
- Minor and major repairs
- Overhaul of locomotive bogies, wheel turns, traction motor change-outs etc.
- Overhaul of wagon bogies, wheel turns and replacements, structural repairs etc.

East Tamar also has a Quick Fix facility used for locomotive provisioning and minor servicing and repairs.

At Burnie, we operate a maintenance facility for locomotive provisioning and the maintenance of ore wagons used on the Melba Line.

Burnie Loader

Bulk storage and shiploading facilities are also situated at Burnie, servicing the mining industry on the North West Coast.

The ship loading facility is a strategic infrastructure asset that is owned, operated and maintained by TasRail. It provides under-cover storage and conveyor discharge/direct ship loading of mineral concentrates. The facility enables TasRail to offer an additional logistics service to customers, particularly those in the base minerals sector, and it is also well utilised by road transport operators.



1. Peter Standaloft – Electrical Supervisor
3. Robbie Box – Rollingstock Maintainer
4. John Liddell – Train Controller
5. From left:
David Venn-Brown – Interfleet consultant
Chris Edwards – Rollingstock Manager
Stephen Halford – Interfleet consultant

Above Rail – fast facts

- Operates up to 72 rail freight services every week
- Manage customer contracts and services
- Train Control and Network Access
- Maintains a fleet of 34 locomotives and 374 wagons
- Owns and operates a ship loading facility (for mineral concentrates) at the Port of Burnie

Above Rail – continued

Train Service Performance

Performance Measure	December 2009 ¹	Quarter 3 As at 31 March 2010	Quarter 4 As at 30 June 2010	TOTAL
On time arrival	59 per cent	59 per cent	68 per cent	N/A
Deraillments – Yard	0	0	2	2
Deraillments – Running Line	1	1	2	4

Freight Volume (tonnes)

Performance Measure	December 2009 ¹	Quarter 3 As at 31 March 2010	Quarter 4 As at 30 June 2010	TOTAL
Intermodal (containers, paper and coal)	91,531	222,920	261,718	576,169
Bulk Freight (minerals and cement)	100,902	308,706	368,771	778,379

¹ TasRail was established on 1 December 2009 and therefore performance data prior to this time is not available for publication.



Our Customers

A priority since TasRail was established in December 2009 has been the process of beginning, building and developing robust relationships with our customers.

We aspire to be client focused and are intent on providing a reliable service that meets and responds to customer needs – both now and into the future.

Undoubtedly, the long-term future of our major industrial customers and changes to the profile of the shipping and transport in Tasmania present additional risks to our business. But equally, TasRail believes that change can also create opportunities.

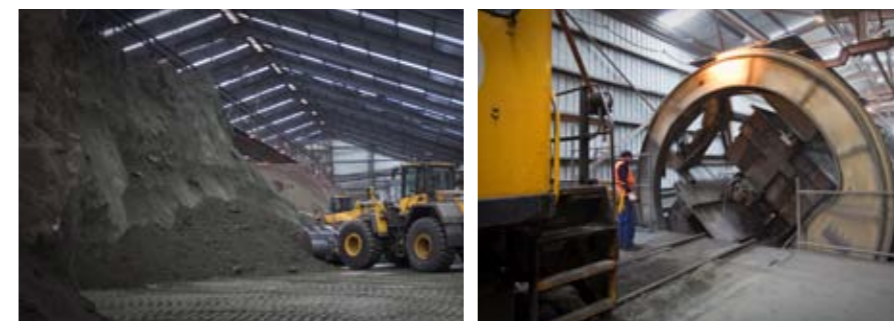
By developing strong and direct relationships with our customers and other stakeholders, and retaining the currently non-operational railway lines, TasRail is better placed to proactively respond and play an appropriate role in the economic development of the State.

TasRail – a greener alternative

- TasRail is mindful that increasingly, its customers are concerned to address environmental impacts, particularly climate change.
- Rail freight transport offers a cleaner and greener alternative, with a carbon footprint significantly less than road freight.
- By working and investing in the rebuilding of a reliable, efficient and competitive rail business, our customers and our community can be confident that TasRail is playing its part to reduce carbon emissions.



Commodity	Rail Freight Service details
Paper	<ul style="list-style-type: none"> – Containerised paper from the Norske Skog Paper Mill at Boyer to Burnie (was Bell Bay) – Typically five to six return train services per week – Length of haul 356 kilometres
Containers	<ul style="list-style-type: none"> – Containerised goods from Hobart to Burnie. Northbound principal loading is zinc in heavy 20 foot containers from Nyrstar plus some general goods. Southbound loading is principally empty containers returning for Nyrstar plus some imported general goods – Two train service operating daily/seven days per week between Burnie and Hobart return – Length of haul 363 kilometres
Cement	<ul style="list-style-type: none"> – Bulk cement haulage from Railton to Devonport, including loading for Cement Australia – Current service is 24/7 as required by the customer, up to six return trains per day – Length of haul 22 kilometres
Coal	<ul style="list-style-type: none"> – Bulk coal from Fingal to Railton for Cornwall Coal – Typically operating two to three return train services per week – Length of haul 183 kilometres
Minerals	<ul style="list-style-type: none"> – Lead, Zinc and Copper concentrate from Primrose and Melba to Burnie, including product unloading, storage and shiploader services for customers Minerals and Metals Group (MMG) and Copper Mines of Tasmania (CMT) – Typically operating seven to eight return trains per week – Length of haul is 109 kilometres from Primrose (MMG) and 130 kilometres ex Melba (CMT) – Storage and ship loading



Ship loading facility

- TasRail owns and operates a bulk storage and shiploader facility at Burnie. This is the only multi-user, undercover storage and shiploading facility in Tasmania catering for mineral products that are transported by road and rail.
- The facility stores and shiploads up to 500,000 tonnes per annum of minerals concentrate. This facility enables TasRail to offer its customers a complete and tailored transport solution.

A culture of collaboration

TasRail seeks to maintain a regular dialogue with important stakeholders in the freight and transport sector, including TasPorts, the Department of Infrastructure, Energy and Resources and others. We recognise that such relationships are fundamental to informing our decision making and planning decisions and, ultimately, if rail is to play its proper role in the economic development of the State.

We are committed to full compliance with all legislative, statutory and regulatory obligations, and are keen to lead constructive relationships with the Rail Safety Regulator and Workplace Standards Tasmania with whom we share the mutual objective of continuous safety improvement.

We also desire to establish and maintain collaborative relationships with our community, particularly the various Tourist and Heritage Rail organisations. By working together we aim to identify and explore opportunities for the State where they can be achieved without compromise to safety, customers and integrity of our assets.

Responding to community enquiries in a sensitive and timely manner is fundamental, and we seek to be open and transparent about the way we work and engage with the wider community.

From left to right:
Adam Willis – Mechanical Supervisor
Peter Standaloft – Electrical Supervisor
with Locomotive Maintainers:

John Howard
Michael Brown
Henry Vandongen
Dean Thompson
Greg Kabak
Terran Fiegert
Andrew Schuller
Matthew Davis



1



2



3

1. Rodney Bellinger – Locomotive Driver
3. James Macartney – Procurement Manager





Our future

As our performance continues to improve and the social, economic and environmental benefits of rail transport become increasingly evident, we are confident the decision of the Tasmanian Government to invest in the state's rail system will be vindicated.

In order to meet TasRail's objectives and shareholder expectations, the Board and management of the company has developed a comprehensive capital programme to address the under-investment of the past. This will provide a sound foundation for sustaining and growing the business going forward. Funding has already been secured from the Tasmanian and Australian Governments to undertake significant components of this programme, but the balance will need to be the subject of further funding submissions at an appropriate time.

Our investment programme is designed to address TasRail's current safety and reliability issues, by directing funding into:

- *General track upgrading: Much of the rail and sleepers are life-expired and little improvement work was carried out on other critical infrastructure in the past, such as the track formation, culverts, drainage systems etc.*
- *New locomotives: Almost all of the current fleet is greater than thirty years old and there is a lack of compatibility across the fleet which affects the efficiency and flexibility of our operations. Many components for some of the locomotives are no longer available which significantly increases the cost of maintaining the fleet.*

- *New wagons: TasRail inherited many different and incompatible wagons, the result of which is an operation that requires significant additional shunting and restricted payload issues. These in turn result in inherent safety issues which need to be managed.*

- *A modern train control system: The current system relies almost totally on human interfaces and manual procedures for the administration of safety controls.*

- *Upgraded equipment in our workshops: This will enable TasRail to increase the throughput of our maintenance activities, thereby reducing the unit cost of such work.*

TasRail will progressively work with the respective State and Australian Government representatives to secure the funding required to undertake its investment programme.

Satisfying our customers is fundamental to TasRail's success. Our customers want to use rail, provided we can deliver the right balance of service, cost, and reliability. To grow the business to the extent required, TasRail must be innovative and we must challenge traditional railway thinking. We need to work proactively with our customers to better understand their needs including long-term plans, and we must develop and provide them with transport solutions.

We acknowledge the past years of uncertainty have been difficult for our customers and we are grateful for their continued support. Moving forward, our objective is to create an environment whereby using rail transport will be the logical choice for our customers.

