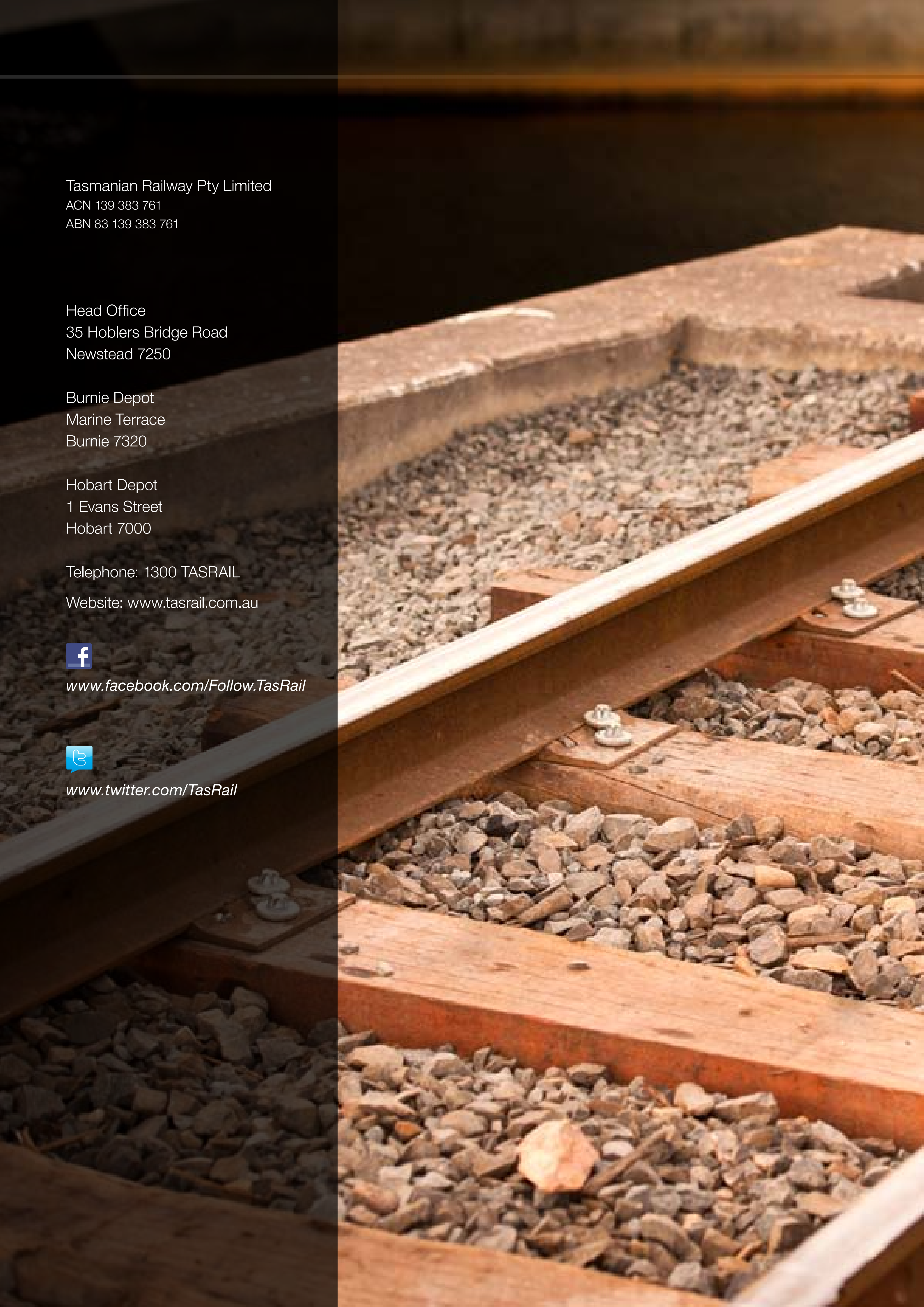
ANNUAL REPORT
2010/11

TASRAIL
Our future on track



Tasmanian Railway Pty Limited
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10 Financial Report

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 2011 and the independent auditor's report thereon.

1. Directors

The Directors of the Company for the year ended 30 June 2011 are or were:

Name and independence status	Special responsibilities and other directorships
Mr Robert Annells Executive Chairman Appointed 17 November 2009	Chairman – Remuneration Committee Member – Capital Projects Committee (from 28 February 2011) Chairman – Tourism Tasmania (until May 2011) Director – Tasmanian Development Board
Mr John Fullerton Independent Non-Executive Director Appointed 6 December 2009 Resigned 31 January 2011	Chairman – Operations and Safety Committee Member – Capital Projects Committee Member – Remuneration Committee Chairman – Cooperative Research Centre for Rail Innovation Director – Rail Industry Safety and Standards Board
Mr David George Independent Non-Executive Director Appointed 26 May 2011	Member – Capital Projects Committee Member – Operations and Safety Committee Member – Remuneration Committee
Mr Roger Gill Independent Non-Executive Director Appointed 4 November 2009	Chairman – Capital Projects Committee Member – Strategy and Risk Management Committee Member – Remuneration Committee Director – Pacific Hydro Pty Ltd Director – Tasmanian Irrigation Development Board Pty Ltd Director – Southern Regional Water and Sewerage Corporation (until 30 April 2011) Director – Hydro Focus Pty Ltd Member – Tasmanian Renewable Energy Industry Development Board
Mrs Sarah Merridew Independent Non-Executive Director Appointed 6 December 2009	Chairman – Finance, Audit and Compliance Committee Member – Operations and Safety Committee Member – Remuneration Committee Director – MyState Limited Director – Tasmanian Water and Sewerage Corporations
Mr Robert Neil Independent Non-Executive Director Appointed 4 November 2009	Chairman – Strategy and Risk Management Committee Member – Finance, Audit and Compliance Committee Member – Remuneration Committee Acting Chair – Operations & Safety Committee (from 15 February 2011) Director – Neil Consulting Pty Ltd

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 2011 are:

Director	Meetings attended	Max. no. possible
Robert Annells	14	14
John Fullerton (to 31 January 2011)	8	8
David George (from 26 May 2011)	1	1
Roger Gill	11	14
Sarah Merridew	12	14
Robert Neil	14	14

Finance, Audit and Compliance Committee

Director	Meetings held	Meetings attended
Sarah Merridew	6	6
Robert Neil	6	6

Capital Projects Committee

Director	Meetings held	Meetings attended
Robert Annells (from 28 February 2011)	7	7
David George (from 26 May 2011)	1	1
John Fullerton (to 31 January 2011)	4	3
Roger Gill	11	11

Operations and Safety Committee

Director	Meetings held	Meetings attended
David George (from 26 May 2011)	1	1
John Fullerton (to 31 January 2011)	3	3
Sarah Merridew	5	5
Robert Neil (from 15 February 2011)	2	2

Strategy and Risk Management Committee

Director	Meetings held	Meetings attended
Roger Gill	4	4
Robert Neil	4	4

Remuneration Committee

There were no meetings of the Remuneration Committee held during the reporting period.

2. Principal activities

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

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

3. Operating and financial review

Operating segments

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

Below Rail

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

Above Rail

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

Operating result

The net loss after income tax for the year ended 30 June 2011 was $27,069,063 after an impairment loss of $30,390,998 (net loss after income tax for the period 1 December 2009 to 30 June 2010 - $10,007,675). This has been calculated in accordance with Australian Accounting Standards (AASBs). Segment results were made up of the following, Below Rail net loss of $27,909,658 (2010 - net loss of $8,722,017) and Above Rail net profit of $40,595 (2010 - net loss of $1,285,658).

4. Environmental regulations

The Company's operations are subject to significant environmental regulations under both Commonwealth and State Legislation. The Primary Legislation is the *Environmental Protection Act 1994*. No breaches of the above-mentioned legislation were notified during the financial period.

Under the terms of the Lease for the rail corridor and associated infrastructure, from the Minister for Infrastructure, Energy and Resources, 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.

5. Dividends

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

6. Events subsequent to reporting date

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

7. Likely developments

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

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

8. Directors' interests

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

9. Indemnification and insurance

Indemnification

Indemnities have been provided to all current Directors and Officers of the Company.

Insurance premiums

Since 1 July 2010, 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.

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

10. Auditor's Independence Declaration

The Auditor's Independence Declaration forms part of the Directors' report for the financial year ended 30 June 2011.

Mr Robert Annells

Chairman

Dated at Launceston
this 15th day of August 2011.

15 August 2011

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

Dear Board Members

Auditor's Independence Declaration

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

As the auditor of the financial report of Tasmanian Railway Pty Ltd for the financial year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

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

Yours sincerely

E R De Santi
DEPUTY AUDITOR-GENERAL
Delegate of the Auditor-General

Statement of Comprehensive Income

For the year ended 30 June 2011

	Note	2011 $	2010 (1/12/09-30/06/10) $
Continuing operations			
Revenue from freight services		28,916,222	15,843,128
Grant income	4	14,590,000	-
Other income	4	2,078,616	1,013,132
		45,584,838	16,856,260
Salary and wages expense		(20,960,475)	(9,991,308)
Maintenance and consumables expense		(12,495,483)	(5,715,938)
Depreciation expense	6	(5,556,303)	(3,562,392)
Fuel and oil expense		(4,945,447)	(2,621,510)
Administration expense		(5,187,783)	(3,752,804)
Other expenses		(3,980,296)	(1,981,216)
Loss before net finance income		(7,540,949)	(10,768,908)
Finance income	7	2,909,130	683,425
Finance costs	7	-	(48,985)
Net finance income	7	2,909,130	634,440
Loss from continuing operations		(4,631,819)	(10,134,468)
Taxation equivalent expense	8	6,971,172	87,256
Loss for the year after tax		(11,602,991)	(10,221,724)
Loss on transfer of assets to DIER for no consideration	6	-	(1,725,673)
Bargain purchase price in business combination	21	-	1,852,466
Impairment expense	6	(30,390,998)	-
Recognition of inventory	11	7,153,754	-
Taxation equivalent benefit on these items		6,971,172	87,256
		(16,266,072)	214,049
Net loss for period after tax before comprehensive income		(27,869,063)	(10,007,675)
Other comprehensive income		-	-
Total comprehensive loss for the year		(27,869,063)	(10,007,675)

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

Statement of Financial Position

As at 30 June 2011

	Note	2011 $	2010 (1/12/09-30/06/10) $
Assets			
Cash and cash equivalents	9	37,767,530	32,704,529
Trade and other receivables	10	6,350,999	3,624,557
Inventories	11	9,682,361	1,527,059
Total Current Assets		53,800,890	37,856,145
Deferred tax asset	13	-	-
Property, plant and equipment	14	41,716,546	41,523,823
Total Non-current Assets		41,716,546	41,523,823
Total Assets		95,517,436	79,379,968
Liabilities			
Trade and other payables	15	9,237,365	4,641,555
Deferred income	16	-	-
Employee benefits	17	4,110,610	2,815,710
Total Current Liabilities		13,347,975	7,457,265
Employee benefits	17	117,199	65,378
Total Non-current Liabilities		117,199	65,378
Total Liabilities		13,465,175	7,522,643
Net Assets		82,052,262	71,857,325
Equity			
Share capital	18	119,929,000	81,865,000
Accumulated losses		(37,876,738)	(10,007,675)
Total Equity		82,052,262	71,857,325

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

Statement of Changes in Equity

For the year ended 30 June 2011

	Note	Share Capital $	Accumulated Losses $	Total Equity $
At 1 December 2009		-	-	-
Shares Issued	18	2	-	2
Equity contributed	18	81,864,998	-	81,864,998
Total other comprehensive loss for the year		-	(10,007,675)	(10,007,675)
At 30 June 2010		81,865,000	(10,007,675)	71,857,325
At 1 July 2010		81,865,000	(10,007,675)	71,857,325
Shares Issued	18	-	-	-
Equity contributed	18	38,064,000	-	38,064,000
Comprehensive loss for the year		-	(27,869,063)	(27,869,063)
At 30 June 2011		119,929,000	(37,876,738)	82,052,262

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

Statement of Cash Flows

For the year ended 30 June 2011

	Note	2011 $	2010 (1/12/09-30/06/10) $
Cash flows from operating activities			
Receipts from customers		27,579,494	15,480,943
Grants received for operating activities		14,590,000	-
Payments to suppliers and employees		(42,611,854)	(21,477,517)
Cash generated from operations		(442,360)	(5,996,574)
Interest received		2,909,130	683,425
Interest paid		-	(48,985)
Taxation equivalent benefit paid		-	-
Net cash from/(used in) operating activities	23	2,466,770	(5,362,134)
Cash flows from investing activities			
Consideration for acquisition of rail assets	21	-	(30,449,094)
Purchase of property, plant and equipment		(35,697,366)	(13,349,243)
Proceeds from sale of plant and equipment		229,597	-
Net cash from/(used in) investing activities		(35,467,769)	(43,798,337)
Cash flows from financing activities			
Proceeds from shares issued	18	-	2
Proceeds from equity contributions	18	38,064,000	81,864,998
Net cash provided by financing activities		38,064,000	81,865,000
Net increase/(decrease) in cash and cash equivalents		5,063,001	32,704,529
Cash and cash equivalents at start of period		32,704,529	-
Cash and cash equivalents at 30 June 2011	9	37,767,530	32,704,529

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

Index to the notes to the Financial Statements

Notes to the Financial Statements

For the year ended 30 June 2011

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 35 Hoblers Bridge Road, Newstead, Tasmania 7250.

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

2. Basis of preparation

(a) Statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted 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 15 August 2011.

(b) Basis of measurement

The financial report is prepared on the historical costs basis.

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

Notes to the Financial Statements

For the year ended 30 June 2011

3. Significant accounting policies

(a) Revenues

Provision of revenue from freight services

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

Interest income

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

Sale of Non-Current Assets

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

Government grants

Government grants are assistance by the Tasmanian State Government in the form of transfers of resources to the Company to assist with the purchase, maintenance and construction of assets for the operation of the Tasmanian Rail Network.

Where the substantial purpose of a government grant is for asset renewal or upgrade, the Tasmanian State Treasurer has formally designated this funding to be classified as equity. Where this occurs, the funding is allocated directly to "Share Capital" and is reflected in the Statement of Changes in Equity.

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

3. Significant accounting policies *(continued)*

(b) Income Tax

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

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

Current tax

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

Deferred tax

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

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

Notes to the Financial Statements

For the year ended 30 June 2011

3. Significant accounting policies *(continued)*

(c) Property, Plant and Equipment

(i) Recognition and measurement

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy (h)). Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant or the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Assets under the amount of $1,000 are recognised in the income statement at the point of acquisition.

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

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

(ii) Depreciation

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

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

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

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

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

(d) Provisions

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

3. Significant accounting policies *(continued)*

(e) Employee Entitlements

i) Short-term benefits

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

ii) Long-term benefits

The Company's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on-costs. The provision is measured at the present value of management's best estimate of the expenditure required to settle the present obligation.

iii) Defined contribution plans

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

(f) Inventories

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

(g) Goods and Services Tax

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

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

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

Notes to the Financial Statements

For the year ended 30 June 2011

3. Significant accounting policies *(continued)*

(h) Impairment

i) Financial assets (including receivables)

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

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

ii) Non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" - CGU). The Company has two reportable segments (CGUs) represented by Above Rail and Below Rail.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of the assets in the unit (group of units) on a pro rata basis. Impairment losses recognised in the profit and loss for the reporting period are accounted for one month in arrears once the carrying amount is verified subject to due diligence and final reporting verification procedures.

(i) Finance income and finance costs

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

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

(j) Segment reporting

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

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

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

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

3. Significant accounting policies *(continued)*

(k) Financial instruments

(i) Non-derivative financial assets

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

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

Loans and receivables

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. 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 has trade and other payables which are the only non-derivative financial liabilities. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest rate method.

(l) Business combinations

The Company has applied the acquisition method for the business combinations disclosed in note 23. For every business combination, the acquisition date is the date on which control is transferred to the Company. Control is the power to govern the financial and operating policies of an entity or group of assets so as to obtain benefits from their activities.

Measuring goodwill

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

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

Transaction costs

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

Notes to the Financial Statements

For the year ended 30 June 2011

3. Significant accounting policies *(continued)*

(m) New accounting standards and interpretations not adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2011, but have not been applied in preparing this financial report.

- AASB 9 *Financial Instruments* includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 will become mandatory for the Company's 30 June 2013 financial statements. The Company does not expect the Standard to have any impact on the financial statements.
- AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets* amends the disclosures relating to the derecognition of financial assets. The amendments, which become mandatory for the Company's 30 June 2012 financial statements, are not expected to have a significant impact on the financial statements.
- AASB 124 *Related Party Disclosures* (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for the Company's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.
- AASB 2010-4 *Further amendments to Australian Accounting Standards arising from the Annual Improvements Process* affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Company's 30 June 2012 financial statements, are not expected to have a significant impact on the financial statements.
- AASB 2010-5 *Amendments to Australian Accounting Standards* affect various AASBs resulting in number of minor editorial amendments to existing accounting standards and interpretations to reflect changes in accounting standard references and terminology. The amendments, which become mandatory for the Company's 30 June 2012 financial statements, are not expected to have a significant impact on the financial statements.
- AASB 1054 Australian Additional Disclosures, AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project, and AASB 2011-2 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements include revised disclosure requirements. The amendments, which become mandatory for the Company's 30 June 2013 financial statements, are not expected to have a significant impact on the financial statements.

(n) Leased assets

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

(o) Capital management

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

(p) Comparative period

The comparative period for this financial report is the period from 1 December 2009 to 30 June 2010.

Notes to the Financial Statements

For the year ended 30 June 2011

4. Other income	2011 $	2010 (1/12/09-30/06/10) $
Grant income - Tasmanian Government contribution to operating expenditure (i)	14,590,000	-
	14,590,000	**-**
Property rental	1,055,842	529,207
Sundry	1,022,774	483,925
	2,078,616	**1,013,132**

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

5. Auditors' remuneration	2011 $	2010 (1/12/09-30/06/10) $
Audit Services		
Auditors of the Company:		
Tasmanian Audit Office		
Audit the financial report	43,800	40,000
	43,800	**40,000**

Notes to the Financial Statements

For the year ended 30 June 2011

6. Expenses	2011 $	2010 (1/12/09-30/06/10) $
Depreciation and impairment expense for the year consists of:		
Depreciation of buildings, plant and equipment	5,556,303	3,562,392
Impairment of Infrastructure (Note 14)	30,390,998	-
	35,947,301	**3,562,392**
Net gain on sale of property, plant and equipment	**182,950**	**-**
Loss on transfer of assets to DIER for no consideration	**-**	**1,725,673**

7. Net finance income	2011 $	2010 (1/12/09-30/06/10) $
Interest expense	-	48,985
Finance costs	-	48,985
Interest income	2,909,130	683,425
Finance income	2,909,130	683,425
Net finance income	**2,909,130**	**634,440**

Notes to the Financial Statements

For the year ended 30 June 2011

8. Taxation equivalent benefit	2011 $	2010 (1/12/09-30/06/10) $
Income tax expense attributable to continuing operations		
Current year expense/(benefit)	(789,148)	(2,594,039)
Adjustments for prior years	(586,132)	-
Deferred tax expense:		
Origination and reversal of temporary differences:		
Increase/(Decrease) in deferred tax liability	12,678	144,984
Decrease/(Increase) in deferred tax asset	(612,974)	(593,845)
Non-recognition of temporary differences and tax equivalent losses	8,946,748	3,130,156
Net income tax expense attributable to continuing operations	6,971,172	87,256
Income tax expense attributable to unusual items		
Current year tax expense/(benefit)		(87,256)
Deferred tax expense:		
Origination and reversal of temporary differences:		
Increase/(Decrease) in deferred tax liability	(6,971,172)	-
Decrease/(Increase) in deferred tax asset	-	-
Net income tax (benefit) attributable to unusual items	(6,971,172)	(87,256)
Total taxation equivalent expense/benefit	**-**	**-**
Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income rate		
Loss before tax	(27,869,063)	(10,007,675)
Income tax using the domestic corporation tax rate of 30%	(8,360,719)	(3,002,303)
Increase in income tax expense due to:		
Non-deductible expenses	103	501
Decrease in income tax expense due to:		
Sale of property, plant and equipment	-	(3,061)
Non-assessable bargain purchase price	-	(125,294)
	(8,360,616)	**(3,130,157)**
Add prior year under/(over) provision	(586,132)	-
Non-recognition of temporary differences and tax equivalent losses	8,946,748	3,130,157
Total taxation equivalent expense/benefit	**-**	**-**

Notes to the Financial Statements

For the year ended 30 June 2011

9. Cash and cash equivalents	2011 $	2010 (1/12/09-30/06/10) $
Bank balances	2,114,996	5,440,687
Call deposits	35,651,734	27,263,242
Petty cash on hand	800	600
Cash and cash equivalents in the statement of cash flows	**37,767,530**	**32,704,529**

10. Trade and other receivables	2011 $	2010 (1/12/09-30/06/10) $
Current		
Trade receivables	2,770,779	2,862,098
Sundry receivables	2,458,429	245,407
Prepayments	83,600	61,073
GST receivable	1,038,191	455,979
	6,350,999	**3,624,557**

The average credit period on freight services is 34.7 days (2010: 25 days). No interest is charged on trade receivables. Trade receivables over 60 days will be provided for based on estimated irrecoverable amounts from the sale of services, determined by reference to past default experience.

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

11. Inventories	2011 $	2010 (1/12/09-30/06/10) $
Consumables stock at cost	9,431,413	1,304,272
Fuel stock at cost	250,948	222,787
	9,682,361	**1,527,059**

The cost of inventory expensed in the year was $10,931,854 (2010 - $3,013,305)

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

12. Current tax asset or liability

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

13. Deferred tax assets and liabilities	2011 $	2010 (1/12/09-30/06/10) $
Recognised deferred tax assets and liabilities		
Deferred tax assets and liabilities are attributable to the following:		
Deferred tax assets		
Employee benefits	1,410,964	948,059
Trade and other payables	296,453	230,029
Property, plant and equipment	9,805,658	41,783
Carried forward tax losses - Revenue Losses	2,975,942	2,681,295
Carried forward tax losses - Capital Losses	517,702	-
Tax assets	**15,006,719**	**3,901,166**
De-recognised due to not being probable of recovery	(12,577,636)	(3,630,887)
Set-off against deferred tax liability	(2,429,083)	(270,279)
Net deferred tax asset	-	-
Deferred tax liabilities		
Inventory	2,221,411	66,836
Trade and other receivables	82,378	78,149
Bargain purchase price	125,294	125,294
Tax liabilities	**2,429,083**	**270,279**
Set-off of tax	(2,429,083)	(270,279)
	-	-

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, Tasmanian Railway Pty Ltd 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 which a current or deferred tax liability arises in the current year ($2,429,083), then this has been offset by the recognition of tax benefits of the same amount.

Notes to the Financial Statements

For the year ended 30 June 2011

14. Property, Plant and Equipment	2011 $	2010 (1/12/09-30/06/10) $
Leasehold Improvements (Buildings) - At Cost	3,609,444	3,609,444
Accumulated depreciation	(836,356)	(376,118)
	2,773,088	3,233,326
Infrastructure - At Cost	39,851,609	9,899,805
Accumulated depreciation	(816,399)	(476,716)
Accumulated impairment losses	(30,390,998)	-
	8,644,212	9,423,089
Plant and Equipment - At Cost	1,597,460	1,391,218
Accumulated depreciation	(515,953)	(132,644)
	1,081,507	1,258,574
Rollingstock - At Cost	17,994,166	15,606,000
Accumulated depreciation	(5,906,476)	(2,291,588)
	12,087,690	13,314,412
Motor Vehicles - At Cost	699,950	754,050
Accumulated depreciation	(393,341)	(285,325)
	306,609	468,725
Capital Projects	16,823,440	13,825,697
	16,823,440	13,825,697
Total property, plant and equipment net book value	**41,716,546**	**41,523,823**

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

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

14. Property, Plant and Equipment *(continued)*	2011 $	2010 (1/12/09-30/06/10) $
Reconciliations		
Reconciliations of the carrying amounts for each class of plant and equipment are set out below:		
Land		
Carrying amount at the beginning of the period	-	-
Additions	-	1,725,673
Disposals	-	(1,725,673)
Carrying amount at the end of the period	-	-
Leasehold Improvements (Buildings) - At Cost		
Carrying amount at the beginning of the period	3,233,326	-
Additions	-	3,609,444
Depreciation	(460,238)	(376,118)
Carrying amount at the end of the period	2,773,088	3,233,326
Infrastructure - At Cost		
Carrying amount at the beginning of the period	9,423,089	-
Additions	30,428,520	9,899,805
Depreciation	(816,399)	(476,716)
Impairment Loss	(30,390,998)	-
Carrying amount at the end of the period	8,644,212	9,423,089
Plant and Equipment - At Cost		
Carrying amount at the beginning of the period	1,258,574	-
Additions	206,242	1,391,218
Depreciation	(383,309)	(132,644)
Carrying amount at the end of the period	1,081,507	1,258,574
Rollingstock - At Cost		
Carrying amount at the beginning of the period	13,314,412	-
Additions	2,546,166	15,606,000
Disposals	(46,647)	-
Depreciation	(3,726,241)	(2,291,588)
Carrying amount at the end of the period	12,087,690	13,314,412

Notes to the Financial Statements

For the year ended 30 June 2011

14. Property, Plant and Equipment *(continued)*	2011 $	2010 (1/12/09-30/06/10) $
Motor Vehicles - At Cost		
Carrying amount at the beginning of the period	468,725	-
Additions	8,000	754,050
Depreciation	(170,116)	(285,325)
Carrying amount at the end of the period	306,609	468,725
Capital Projects in Progress		
Carrying amount at the beginning of the period	13,825,697	-
Additions	26,651,421	13,825,697
Transfers out	(23,653,678)	-
Carrying amount at the end of the period	16,823,440	13,825,697
Total Property, Plant and Equipment net book value	**41,716,546**	**41,523,823**

The value of the plant and equipment assets acquired on 1 December 2009 were determined by independent valuation by Ernst & Young using the Depreciated Replacement Cost approach as the primary valuation methodology. The valuation methodology considered losses in value attributable to economic, physical and functional obsolence. The fair value of buildings was determined by independent valuation by Brothers & Newton - Opteon. Ernst & Young then adjusted the building values to a Depreciated Replacement Cost value for the purposes of the acquisition accounting.

15. Trade and other payables	2011 $	2010 (1/12/09-30/06/10) $
Trade payables	6,038,940	1,853,189
Other trade payables	1,144,760	781,974
Accrued expenses	2,053,665	2,006,392
	9,237,365	**4,641,555**

The average credit period on purchase of goods and services is 15.2 days (2010: 10 days). The Company has financial risk management policies in place to ensure all payables are paid within the credit timeframe.

Notes to the Financial Statements

For the year ended 30 June 2011

16. Deferred income		2011 $	2010 (1/12/09-30/06/10) $
Current liabilities			
State grant funding	(i)	-	-

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

17. Employee benefits	2011 $	2010 (1/12/09-30/06/10) $
Current		
Liability for annual leave	1,669,535	1,319,742
Liability for long-service leave	2,441,075	1,495,968
	4,110,610	**2,815,710**
Non-Current		
Liability for annual leave	-	-
Liability for long-service leave	117,199	65,378
	117,199	**65,378**

18. Share capital		2011 $	2010 (1/12/09-30/06/10) $
Opening Balance - fully paid ordinary shares		81,865,000	-
Shares issued at commencement of Company	(i)	-	2
Equity contributed during the year	(ii)	38,064,000	81,864,998
Closing Balance - fully paid ordinary shares		**119,929,000**	**81,865,000**

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

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

1. Tasmanian State Government funds for business purchase of $nil (2010 - $30,449,094)
2. Tasmanian State Government funds for capital works programmes and operational expenditure of $19,014,000 (2010 - $21,761,904)
3. Commonwealth Government funds for capital works programmes of $19,050,000 (2010 - $29,654,000)

Notes to the Financial Statements

For the year ended 30 June 2011

19. Operating segments

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

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

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

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

Year ended 30 June 2011

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

19. Operating segments *(continued)*

Period ended 30 June 2010 (1/12/09-30/06/2010)

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

Major customers

Revenues from three parties represent approximately 57.7% (2010: 38.8%) of total revenues as follows:

	2011 $	2010 (1/12/09-30/06/10) $
- Party 1 (State Government - grant revenue - Below Rail)	14,549,000	-
- Party 2 (freight services - Above Rail)	5,955,504	3,614,724
- Party 3 (freight services - Above Rail)	5,697,826	2,920,946

Economic Dependency

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

Notes to the Financial Statements

For the year ended 30 June 2011

20. Dividends

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

21. Business Combination

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

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

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

	2010 (1/12/09-30/06/10) $
Consideration transferred:	
Cash	30,449,094
Equity instruments	-
	30,449,094
Identifiable assets acquired and liabilities assumed:	
Property, plant and equipment	34,272,792
Prepayments	115,519
Employee benefits	(2,086,751)
Total net identifiable assets	**32,301,560**
Bargain purchase arising in relation to the business combination	**1,852,466**

22. Commitment for expenditure	2011 $	2010 (1/12/09-30/06/10) $
Capital expenditure commitments		
Not longer than one year:		
Above Rail	2,204,585	954,829
Below Rail	4,064,243	4,734,678
	6,268,828	**5,689,507**
Operating Leases		
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	658,518	213,721
Between one and five years	1,480,831	275,789
	2,139,348	**489,510**

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

During the year, an amount of $495,893 (2010: $52,194) was recognised as an expense in respect of operating leases.

23. Reconciliation of cash flows from operating activities	2011 $	2010 (1/12/09-30/06/10) $
Cash flows from operating activities		
Loss for the period	(27,869,063)	(10,007,675)
Adjustments for:		
Depreciation	5,556,303	3,562,392
Impairment	30,390,998	-
Revaluation of inventory	(7,137,107)	-
Gain on disposal of property, plant and equipment	(182,950)	-
Land transferred to Crown	-	1,725,673
Bargain purchase option	-	(1,852,466)
Operating profit before changes in working capital and provisions	**758,181**	**(6,572,076)**
- Increase/(Decrease) in payables	4,595,810	4,641,556
- Increase/(Decrease) in employee benefits	1,346,721	794,335
- Increase/(Decrease) in current tax asset	-	-
- (Increase)/Decrease in net deferred tax asset	-	-
- (Increase)/Decrease in receivables	(3,215,747)	(3,509,038)
- (Increase)/Decrease in inventories	(1,018,195)	(716,911)
Net Cash flows from operating activities	**2,466,770**	**(5,362,134)**

Notes to the Financial Statements

For the year ended 30 June 2011

24. Financial instruments

Overview

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

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

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The carrying amount of the Company's financial assets represents the maximum credit exposure. The Company's policy only allows investment and cash holdings to be deposited with major Government approved Australian financial institutions. The Company's maximum exposure at the reporting date was:

	2011 $	2010 (1/12/09-30/06/10) $
Cash and cash equivalents (Note 9)	37,767,530	32,704,529
Trade and other receivables (Note 10)	6,350,999	3,624,557
	44,118,529	**36,329,086**

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

	2011 $	2010 (1/12/09-30/06/10) $
The ageing of trade receivables at the reporting date was:		
Not past due	2,707,702	2,861,642
Past due 0-34 days	30,726	225
Past due 34-65 days	6,142	231
Past due more than 65 days	26,209	-
Total	**2,770,779**	**2,862,098**

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

24. Financial instruments *(continued)*

Liquidity risk

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

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

	2011 $	2010 (1/12/09-30/06/10) $
Non-derivative financial liabilities		
Trade and other payables - payable in 6 months or less	9,237,365	4,641,555
	9,237,365	**4,641,555**

Currency risk

The Company has no significant exposure to foreign currency risk.

Interest rate risk

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

A change in 100 basis points in interest rates would have increased or decreased the Company's profit and loss by $377,675 (2010 - $327,039). There is no impact in the Company's equity.

Fair values versus carrying amounts

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

Notes to the Financial Statements

For the year ended 30 June 2011

25. Related Party Transactions

Key management personnel compensation

The key management personnel compensation is as follows:

	2011 $	2010 (1/12/09-30/06/10) $
Short-term benefits	1,362,532	557,145
Other long-term benefits	22,057	-
Post-employment benefits	231,865	63,424
Termination benefits	-	-
	1,616,454	**620,569**

	2011 $	2010 (1/12/09-30/06/10) $
Key management person		
Mr David George (i)	30,000	-
	30,000	**-**

(i) Mr David George is CEO of the Rail Cooperative Research Centre Limited that was paid $30,000 for theme participation contribution fees in 2011. Amount billed was based on normal market rates for such services and payable under normal payment terms. Mrs Sarah Merridew is a Director of Onstream and the Company receives from time to time professional services from Onstream. Amount billed was based on normal market rates for such services and payable under normal payment terms.

Ultimate owner

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

26. Contingencies

Under the terms of the Lease from the Minister for Infrastructure 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 2011. 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.

Under the terms of the Lease from the Minister for Infrastructure for the Rail Corridor and associated infrastructure, the Company is seeking clarification of its responsibilities in relation to maintaining non-operational lines acquired under the terms of the lease.

27. Subsequent events

There have been no events subsequent to balance date which would have a material effect on the Company's financial report at 30 June 2011.

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 2011 and of its performance, for the financial year ended on that date; and

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

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

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

(d) the Directors have been given the declarations as set out in S295A of the *Corporations Act 2011* from the CEO and CFO for the financial year ended 30 June 2011.

Signed in accordance with a resolution of the Directors:

Mr Robert Annells
Chairman

Dated at Launceston
this 15th day of August 2011.

INDEPENDENT AUDITOR'S REPORT

To the Members of Tasmanian Railway Pty Ltd

Financial Report for the Year Ended 30 June 2011

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 2011, the statements of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Auditor's Opinion

In my opinion:

(a) the Company's financial report is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of its financial position as at 30 June 2011 and its financial performance for the year ended on that date, and

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

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

The Responsibility of the Directors for the Financial Report

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

Auditor's Responsibility

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

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

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

Independence

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

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

I confirm that the independence declaration required by the *Corporations Act 2001,* provided to the Directors dated 15 August 2011 and included in the Directors' Report, would be unchanged if provided to the Directors as at the date of this audit report.

TASMANIAN AUDIT OFFICE

E R De Santi
DEPUTY AUDITOR-GENERAL

Delegate of the Auditor-General

HOBART
17 August 2011