



# TASRAIL

ANNUAL REPORT  
2015/16

# Setting new standards for freight logistics in Tasmania



## **Tasmanian Railway Pty Limited**

ACN 139 383 761

ABN 83 139 383 761

Telephone 1300 TASRAIL

Website [www.tasrail.com.au](http://www.tasrail.com.au)

 [facebook.com/Follow.TasRail](https://www.facebook.com/Follow.TasRail)

 [twitter.com/TasRail](https://twitter.com/TasRail)

## **Head Office 11 Techno Park Drive**

(PO Box 335) Kings Meadows 7249

**Burnie Terminal** Marine Terrace Burnie 7320

**Brighton Terminal** Glenstone Road

(PO Box 163) Brighton 7030

# Contents

■ Who We Are	2
Our Network and Terminals	5
Statement of Corporate Intent	7
Chairman's Report	10
CEO's Report	14
■ Above Rail Performance	19
■ Below Rail Performance	27
■ Company Performance	33
■ Corporate Governance	42
Framework	43
Disclosures	46
■ Financial Report 30 June 2016	50



Jarrod Cook - Locomotive Driver

## Who We Are

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

Tasmanian Railway Pty Ltd (TasRail) is a State Owned Company established on 1 December 2009 by an Act of the Tasmanian Parliament. The principal objectives of the business are set out in the *Rail Company Act 2009* and require the Company to:

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

The Treasurer and the Minister for Infrastructure are the two Shareholder Members of the Company.

TasRail is one of the largest transport providers in Tasmania, connecting industry and commerce to major shipping ports and freight hubs across the State. It specialises in handling and hauling a range of commodities from containerised freight to bulk and dangerous goods.

Since its establishment nearly seven years ago, TasRail has grown in capability and performance. The TasRail of today is commercially focussed and committed to delivering optimal and innovative logistics solutions to its customers.

# Our Capability

## Connectivity

TasRail operates from strategically located freight terminals at Burnie, Devonport, Brighton and George Town. These terminals are designed to support multi modal operations and the efficient, seamless and timely transfer of freight. As the owner and operator of Tasmania's only open access minerals shiploader and bulk handling service, TasRail is also able to integrate its operations with industry, offering 'pit to port' solutions by transporting bulk commodities direct from mine to market.

## Expertise

TasRail exists to provide safe, efficient and reliable freight transport services and it is fast earning a growing reputation for its role in facilitating new business and its commitment to designing dynamic and tailored freight logistics solutions. Our expertise includes:

- Multi modal haulage services for intermodal and bulk freight including for example logs, domestic consumables, paper, coal, cement, mineral ores and processed metals.
- Supply chain partnerships.
- Bulk handling and storage.
- Shiploading.
- Seamless interconnectivity between freight rail and mining and manufacturing facilities.
- Design of tailored solutions including Greenfield developments and Brownfield operations.

## Safety

TasRail's new \$11 million Advanced Network Control System is leading edge technology that ensures safety of operations across the rail network is paramount.

## Capacity

Rail's economy of scale results in logistical savings for freight service providers and customers. With a new fleet of purpose-built locomotives and wagons in operation across the network, TasRail has substantially increased hauling capacity, efficiency and reliability. A further \$119.6 million of network improvements is taking place over four years to 2019, ensuring the continued modernisation of the rail system.

## Innovation

TasRail is at the forefront of innovation in freight transport and is delivering multi-modal solutions for a wide range of bulk commodities. The haulage of logs and timber commodities benefits from further innovation with the introduction of specially designed log stanchion bases developed in partnership with Elphinstone Engineering. The new log stanchion bases deliver a more efficient and cost effective transport solution for the forestry sector. Technology also plays an important role in improving customer service and the efficiency of operations. TasRail will continue to investigate and utilise new technologies that facilitate the seamless and responsive movement of freight.

## Social Licence

Rail freight transport helps fortify the social licence of many industries, which is critical to the continued stability and security of their business. Rail also has the capacity and the capability to facilitate economic growth. Industry can plan in the knowledge that their production can be transported on rail at a reasonable cost and that the community will accept the movement of this freight given the widespread understanding of rail's strong safety and environmental credentials.



Alex Vander Wijngaart - Train Controller

# Above Rail Assets

- 17** locomotives  
TR Class
- 8** legacy locomotives  
2000 Class used as required for bulk minerals haulage
- 54** ore wagons  
TOMY
- 18** cement wagons  
THFY
- 40** logtainers  
RBL
- 37** coal wagons  
THGHY and HF
- 164** intermodal wagons  
TQAY and TQBY
- 35** legacy wagons  
TQMF, QLE and IB used as required for new business and growth opportunities
- 1** Shiploader



# Below Rail Assets

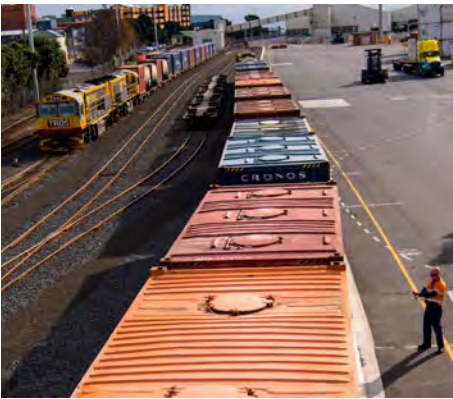


- 611** route kilometres of operational track
- 232** route kilometres of non-operational track
- 1.3** million sleepers
- 3** tunnels
- 355** bridges
- 24** hi-rail vehicles
- 2** ballast tampers
- 1** ballast regulator
- 106** active level crossings
- 143** passive level crossings

# Our Network and Terminals



George Town Terminal



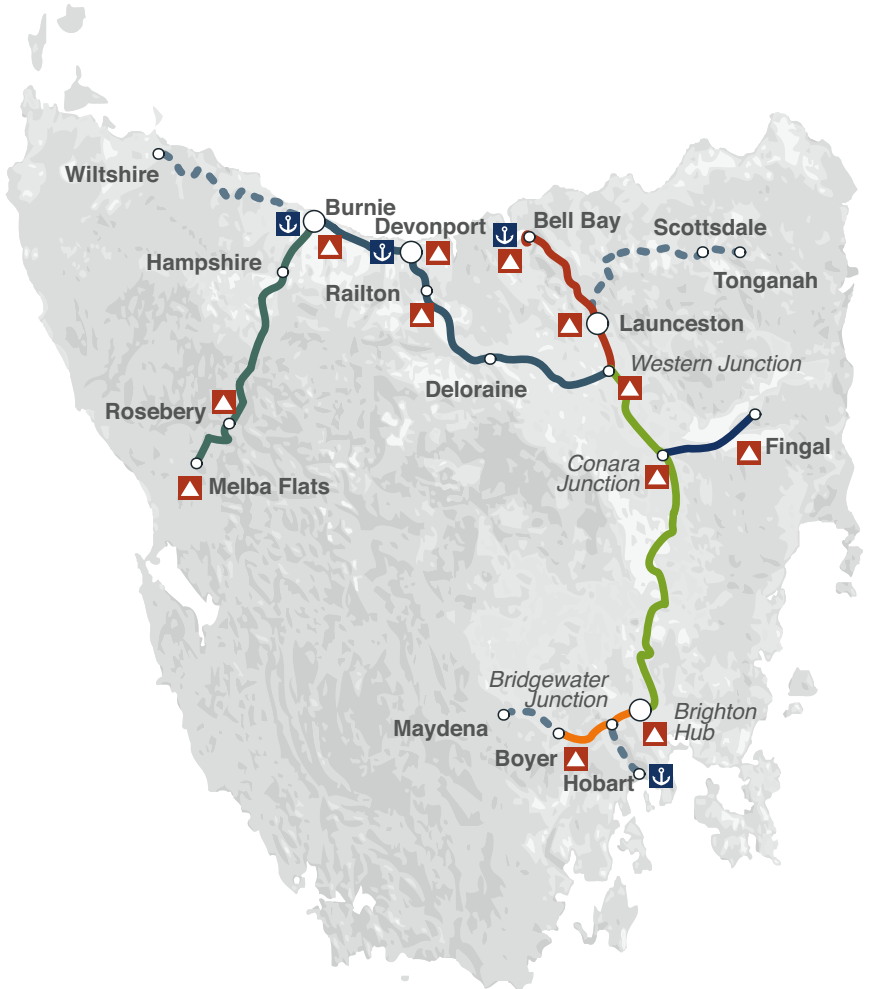
Burnie Terminal



Devonport Terminal



Brighton Transport Hub



- Port
- Derwent Valley Line
- South Line
- Western Line
- Melba Line
- Bell Bay Line
- Fingal Line
- Non Operational Line

# Vision and Values

<p><b>Vision</b></p>	<p>To be a world class, vertically integrated, short haul freight railway.</p>		
<p><b>Mission</b></p>	<p>TasRail will provide safe, reliable, efficient and competitively priced services.</p> <p>Our customers will consider us a strategic partner in their supply chains.</p> <p>Our people will be proud to contribute to excellence in customer service.</p> <p>TasRail will become the freight transport supplier of choice for intermodal and bulk freight transport markets in Tasmania.</p>		
<p><b>Values</b></p>		<p><b>Safety</b></p>	<p>Genuine care for the health and wellbeing of staff, contractors, customers and the wider community.</p>
		<p><b>Integrity</b></p>	<p>Staying true to our values, even when it's hard.</p>
		<p><b>Leadership</b></p>	<p>Striving for clarity of vision and strategies to drive a culture of unity and achievement.</p>
		<p><b>Teamwork</b></p>	<p>Working together to achieve common goals and shared outcomes.</p>
		<p><b>Responsibility</b></p>	<p>Owning our actions and outcomes.</p>
		<p><b>Excellence</b></p>	<p>Seeking and achieving exceptional outcomes in everything we do.</p>
		<p><b>Innovation</b></p>	<p>Embracing new ideas, concepts and systems to create added value.</p>



# Statement of Corporate Intent

TasRail measures its performance against a range of financial and non-financial targets. These targets are agreed between the Company and its Shareholder Members prior to each financial year, and are published in an annual Statement of Corporate Intent. The table below shows TasRail's actual performance against the agreed measures and targets for 2015/16.

Performance Measure	2015/16 Target Result	2015/16 Actual Result	Comments
Lost Time Injury Frequency Rate <sup>^</sup>	3.6	4.0	<i>The number of Lost Times Injuries was consistent with target. However, TasRail fell short of its LTIFR target due to forecast exposure hours being less than reported exposure hours worked.</i>
Recordable Injury Frequency Rate*	12.7	34.3	<i>Proactive reporting and early intervention strategies resulted in a higher number of recorded injuries, primarily related to repetitive and/or manual handling tasks.</i>
Freight Availability <i>General Intermodal</i>	98 per cent	98 per cent	<i>Demonstrates the sustained improvement in the reliability of freight rail services which are consistently meeting or exceeding customer requirements.</i>
Main Line Derailments	0	1	<i>Although the target of zero was not met for derailments, this performance result represents the lowest rate of derailments on the network in many decades.</i>
Below Rail Infrastructure Cost <i>Per track kilometre</i>	\$20.1 thousand	\$26.2 thousand	<i>Infrastructure maintenance costs were significantly higher than budget due to multiple extreme weather events including the June 2016 flood.</i>
Consolidated Revenue	\$40.5 million	\$31.5 million	<i>Revenue was impacted by the suspension of contracted bauxite haulage services early in the year and the consequential business interruption caused by the June 2016 flood.</i>
Capital Spend	\$48.9 million	\$33.0 million	<i>Spend was under target due primarily to the deferred commencement of the Infrastructure Investment Program works during the first six months of the year and delays to programmed works as a result of the severe flood event.</i>
EBITDA <i>Consolidated after Tas Govt Below Rail Infrastructure Contribution</i>	\$0.1 million	\$(7.3) million	<i>Reflects the impact of the June 2016 flood. Other factors include the suspension of bauxite haulage services; lower than forecast scrap sales revenue due to a substantial decline in the commodity price and residual derailment costs from the previous year.</i>
Above Rail Net Profit (Loss)	\$(4.1) million	\$(5.8) million	

<sup>^</sup> Lost Time Injury Frequency Rate is defined as the sum of Lost Time Injuries per million work hours. TasRail's Lost Time Injury Frequency Rate is around a third of the Tasmanian average and less than half the Australian average, as reported by Safe Work Australia, both of which are estimated to be understated ([www.safeworkaustralia.gov.au/sites/SWA/about/Publications/Documents/941/cpm-17-edition.pdf](http://www.safeworkaustralia.gov.au/sites/SWA/about/Publications/Documents/941/cpm-17-edition.pdf))

\* Recordable Injury Frequency Rate is defined as the sum of Lost Time Injuries, Medical Treatment Injuries and Suitable Duties per million person work hours.

# Year in Review



## July

- The Value of Rail Report is released by independent consultants pitt&sherry.
- TasRail employees name the RBL 'Logtainer' frames.
- The project to construct the new George Town Freight Terminal is announced a finalist at the Civil Contractors Federation (Tas) Earth Awards.



## August

- The first formal Employee Opinion Survey is launched to the TasRail workforce.
- The Burnie Station is demolished to make way for the new rail terminal.
- A North bound freight train derails near Nala in the South.
- Negotiations commence for a new General Enterprise Agreement.



## September

- Operations commence at the new George Town Freight Terminal.
- Ulverstone-based Company VEC Civil Engineering is awarded the IIP Quick Start works package for the re-railing and re-sleepering of priority sections of the South, Western and Melba Lines.
- TasRail partners with the Tasmanian Chamber of Commerce and Industry to host a Statewide Freight Forum in Launceston.



## October

- Australian Bauxite Limited ramps up bulk volumes from its Bald Hill Mine after resolving initial screen and assay issues.
- TasRail appears before the Legislative Council Inquiry by Government Administration Committee A into the Financial Sustainability of TasRail.



## November

- The results from the Employee Opinion Survey are reported back to all staff at statewide forums.
- The Burnie Port Optimisation Project is completed on time.
- VEC Civil Engineering is announced as the successful tenderer for a major IIP works package for the upgrade of the Melba and Western Lines.



## December

- TasRail sets a new weekly record for container volumes on rail.
- TasRail successfully trials south bound log volumes using the Logtainers, with intermodal freight on the backhaul journey north.
- Seven TasRail employees are recognised for their long service at regional receptions hosted by the Premier.



## January

- New container volumes hauled on rail between Burnie and Brighton.
- The IIP tender for a level crossing condition monitoring system is released to the market.
- Deluge rainfall in the North East of the State causes the temporary closure of the Fingal Line.



## February

- Three milestones celebrated: the Railway marks 145 years of operation in Tasmania; TasRail honours major customer Norske Skog on the 75th anniversary of operations at the Boyer Mill; and congratulates MMG on 80 years of continuous mill operations at Rosebery.
- The annual audit of TasRail's operations is completed by the independent Office of the National Rail Safety Regulator.



**SafetyCircle®**

## March

- The SafetyCircle program is launched right across the TasRail workforce.
- VEC Civil Engineering completes the IIP Quick Start works package ahead of schedule.
- A new IIP works package for the refurbishment of level crossings at Devonport and Leith is awarded to Gradco in partnership with McLeod Rail.



## April

- TasRail launches National Rail R U OK Day?
- A new Fuel Conservation Program is launched.
- An IIP works package for the relining of 16 culverts is awarded to specialist company Interflow.



## May

- TasRail trials a new technique for repair of poor formation using injected resin technology.
- First wheel change for TR locomotives



## June

- A devastating flood event causes damage to the rail network at 65 locations, causing the suspension of all rail services. View the video at: [www.tasrail.com.au/blog/2016/08/23/june-2016-flood-event/](http://www.tasrail.com.au/blog/2016/08/23/june-2016-flood-event/)
- TasRail receives widespread praise for its initiative to keep customer freight flowing across the State through the establishment and operation of a temporary container transfer station at Conara.
- The new General Enterprise Agreement is approved by Fair Work Australia.

# Chairman's Report

2015/16 was a milestone year for TasRail - a year of mixed fortunes with commendable results achieved across a number of areas while unforeseen events had a negative impact on the company's financial performance.

The most severe of those events was the devastating June flood which caused major damage across large sections of the state's rail network.

TasRail's response was as immediate as it was innovative. It was a response built on a determination to deliver solutions for the ongoing benefit of the Company's customers who largely rely on TasRail to provide their core, intrastate transport logistics.

Rather than falling back on the force majeure provisions of its contracts with customers and suspending all freight operations until repairs could be undertaken, the Board and management decided on a more positive approach. That was to provide a mix of alternative transport options to circumvent the worst of the track damage.

It was a bold decision but it enabled our customers to maintain the flow of essential goods across the state and obviate any prospect of an industrial slowdown that could have resulted from a prolonged delay in the movement of freight. In addition, there was an accompanying positive impact on TasRail's reputation as a capable, reliable and safe business partner.

The most critical consequence of the flood was the damage caused to the Kimberley Rail Bridge, which was estimated to take between six and eight weeks to repair. It presented a bleak outlook for industry and commerce reliant on the flow of goods in and out of the state through the ports of Burnie and Devonport.

TasRail's response was swift and effective. It quickly established a temporary container transfer station at Conara, in the Northern Midlands, and used road transport to move freight around the disabled bridge. Given TasRail was not covered by insurance for business interruption costs caused by flooding, the solution provided a continued source of revenue during the outage and helped minimise the overall negative impact on the year's financial performance.

The Board of Directors is immensely proud of the way all TasRail employees and contractors responded to the natural disaster. Like most, TasRail Directors were shocked at the extent of the damage and destruction caused to people's homes and business, to farms and livestock, and to essential infrastructure, including the rail network.

It is to their credit that TasRail employees and contractors were able to restore services so rapidly, yet maintain the highest standards of safety and professionalism. On behalf of the Board, I also want to acknowledge and thank those who selflessly volunteered to take annual leave in order to reduce overhead costs during the time train services were disrupted. It speaks well of the growing spirit of team work and improving business culture within TasRail.

Similarly, I must acknowledge the assistance of landowners who willingly provided TasRail and its contractors with access through their properties to complete emergency work, and to the residents of Conara for their understanding and cooperation during the period the temporary container transfer terminal was operating.

While the flood event negatively impacted the 2015/16 financial year by \$4 million, the cost of much of the repair work, as well as the provision of alternative freight solutions, will not be brought to account until next financial year. By that time, TasRail expects to finalise its insurance claim for flood related property damage.

Throughout the year, TasRail continued to secure new business which delivered consistent growth in the Company's net annual freight volumes, particularly in the general intermodal sector. This can be attributed to a growing market confidence in TasRail's capacity to move freight safely, reliably and competitively. The growth in intermodal traffic also provided greater diversity in freight movement at a time when bulk freight volumes declined, mostly because of the adverse market conditions confronting the mining industry.

The suspension in January 2016 of bauxite mining operations at the Bald Hill Mine, near Campbell Town, resulted in a further loss of \$1.8 million for the year. This stemmed from TasRail's essential investment in infrastructure, equipment and human resources in the lead-up to the anticipated start to mining, which was ultimately delayed because of the international downturn in the minerals market. The mine was placed under a care and maintenance regime in January 2016.

The circumstances surrounding the troubled mining venture serve to highlight the inevitable risk faced by TasRail in working with start-up enterprises. However, the Board believes such risk must be weighed against the overall economic significance to Tasmania of new ventures which prospectively offer economic benefit to the community, especially in regional areas of the state. The Board remains hopeful future world mineral prices will facilitate a resumption of mining operations at Bald Hill as well as other mining sites around the state.



*Robert Annells PSM - Chairman*

Throughout the year, TasRail continued to secure new business which delivered consistent growth in the Company's net annual freight volumes, particularly in the general intermodal sector.

This can be attributed to a growing market confidence in TasRail's capacity to move freight safely, reliably and competitively.

The net loss recorded by TasRail's Above Rail operations for the year was \$5.8 million compared to a forecast loss of \$4.1 million, allowing for \$6.2 million in depreciation predominantly from the Company's new rollingstock fleet. Significant productivity gains, cost cutting measures and a reduction of \$1.4 million in forecast depreciation helped reduce the overall loss. From an accounting perspective, TasRail does not currently generate sufficient revenue to cover the full amount of depreciation of its new assets and the high overhead costs associated with running such a highly regulated business.

The Board expects TasRail will return an Above Rail profit in 2018/19 through further revenue growth and productivity gains.

Conversely, TasRail's Above Rail result in terms of its earnings before interest, tax and amortisation (EBITA) - in other words, its cash profit - was a loss of \$1.1 million. Had it not been for the flood event and the subsequent disruption to rail services, the Above Rail cash operating result would have been positive despite the losses caused by the reduction in bulk mineral haulage.

The Board is confident the Above Rail business will return a cash positive EBITA next year. At the request of the Tasmanian Government, cash profit generated by the Above Rail business will in the future be used to offset a proposed reduction in the Below Rail Infrastructure Contribution funding (BRIC), which is designed to maintain the rail network in a fit-for-purpose condition.

Throughout the year, TasRail continued its program of upgrading the rail network and reducing single point failures as part of its rejuvenation strategy to deliver increased reliability, efficiency and safety. The Australian and Tasmanian Governments have committed \$119.6 million under the Tasmanian Freight Rail Revitalisation Program over a four-year period to 30 June 2019.

In summary, the future for TasRail is extremely positive.

The State's rail network is providing an increasingly critical link in the logistics of freight movement within Tasmania for those exporting goods through the state's northern ports as well as those importing product and equipment into the state. With the proposed introduction of new and bigger ships to the Bass Strait crossing over the next two to three years, along with improvements to the Tasmanian Freight Equalisation Scheme, the role of TasRail will become even more important as freight movements continue to grow.

In conclusion, I wish to thank TasRail CEO Damien White, his Executive Team and the entire workforce for their dedication and hard work throughout a very challenging year. Each and every one of them is to be commended for their professionalism and commitment to the success of the business.

I must also thank my fellow Directors for the individual and collective contribution to the Company and to me, as Chairman. I value their input, advice and wise counsel.

I would also like to acknowledge the significant contribution of Roger Gill. Roger served as TasRail's inaugural Chief Executive Officer and Executive Director from November 2009 to April 2010, after which time he continued as a Non-Executive Director until his retirement from the Board in September 2015.

Roger is credited with development of the Rail Recovery Plan that identified the Company's short to medium term operational and capital priorities and established the very strong foundation from which TasRail has continued to advance.

His contribution to the resurgence of freight rail in Tasmania cannot be overstated and I thank him most sincerely for his involvement.

Finally, I wish to extend my thanks, and that of the Board, to TasRail's Shareholder Members, The Hon Rene Hidding MP and the Hon Peter Gutwein MP, for their continued support and commitment to the future of rail in Tasmania.

A handwritten signature in black ink, appearing to read 'R Annells', is positioned above the printed name.

Robert Annells, PSM  
**Chairman**



*Damien White - Chief Executive Officer*

TasRail continued its rejuvenation, achieved strong growth in intermodal freight volumes, commenced a major infrastructure renewals program and entered a new era in employee engagement through its 'People First' strategy.

## CEO's Report

2015/16 has been a year of contrasting circumstance.

While the year ended with a devastating flood which affected the entire rail network and adversely impacted the Company's financial performance, TasRail continued its rejuvenation, achieved strong growth in intermodal freight volumes, commenced a major infrastructure renewals program and entered a new era in employee engagement through the development of its 'People First' strategy.

In a commercial context, the year was highlighted by TasRail's progressive transition from a mainly project-focused organisation to one intent on growing freight volumes by applying a positive, customer-focused approach to business.

The Company's service strategy is now focused on providing customers with a seamless and integrated approach to delivering supply chain solutions. To this end, TasRail is positioning itself to efficiently assist in managing the planning of a customer's overall freight requirements. This is a major change in approach and is central to achieving further growth.

TasRail is also intent on delivering greater efficiency, safety, reliability and price competitiveness into the Tasmanian Freight Market. An example is the introduction of the innovative Logtainers, developed by TasRail in conjunction with Tasmanian firm Elphinstone Engineering. By enabling logs to be transported in one direction and containers on the return journey, the Logtainers provide a level of cost efficiency that road transport is unable to match. The Logtainers are also able to reduce the commercial risk associated with what is mainly one-way traffic in the forestry sector.



While TasRail's diversified revenue base, combined with a downturn in the mining industry, caused some difficulties, general intermodal freight volumes grew by some 14 per cent.

The Burnie Port Optimisation Project, the commencement of operations at the George Town Freight Terminal and the achievement of consistently high levels of service reliability, also provided positive contributions to the Company's overall performance.

With four freight terminals now operating, TasRail has been able to substantially improve the way it meets customer needs.

The George Town Freight Terminal has greatly improved the freight options available to local industry including their capacity to make greater use of rail freight through to the ports of Burnie and Devonport.

The new Burnie Terminal has enhanced transit times for rail freight, the receipt and delivery of freight to customers and the more cost-effective utilisation of rail assets.

The Brighton Transport Hub continues to efficiently manage a growing volume of freight and TasRail is now exploring further intermodal rail freight options in Launceston.

This network of intermodal freight terminals means TasRail can better optimise services and utilise latent capacity to deliver improved margins, while at the same time offer a suite of integrated freight options for its customers.



Because TasRail now has a better understanding of the competitive advantages of rail freight movement, it is using that knowledge in discussions with prospective customers, most of whom recognise the social, economic and environmental benefits of reducing their presence on the State's road system.

TasRail's growth strategy for intermodal freight is to increase business from existing customers through improved service outcomes and supply chain efficiencies, while also attracting new customers. In terms of bulk haulage, TasRail's only immediate opportunity for growth is by securing a contract for the transport of coal from Fingal to Boyer. In the longer term, TasRail is hopeful that an eventual improvement in international markets will facilitate a revitalisation of the Tasmanian mining industry with a resultant lift in the bulk transport of minerals.



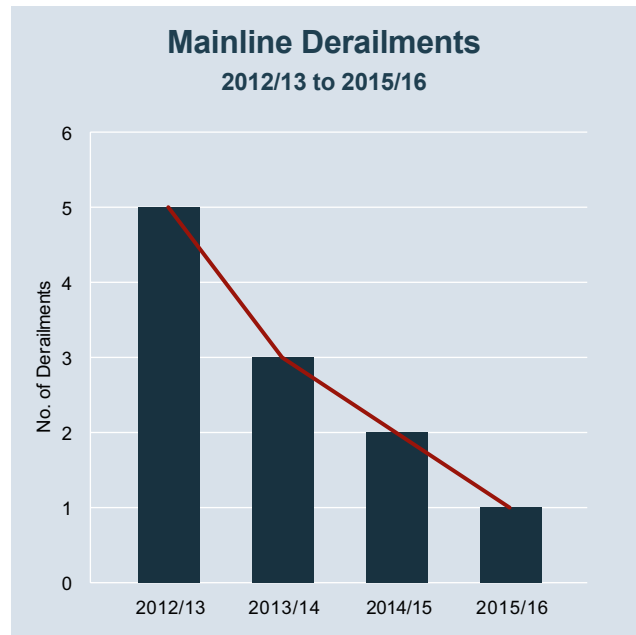
2015/16 also saw the start of a \$120 million, four-year Infrastructure Investment Project (IIP) funded equally by the Tasmanian and Australian Governments. While past investment programs have focused on critical repairs and replacements, the IIP aims to continue to improve the network's safety and reliability, coupled with strategies to reduce annual maintenance costs. Contracts for more than \$33 million of works were awarded over the financial year, with a majority of the nine tenders to date being awarded to either Tasmanian companies or those with a large proportion of Tasmanian employees.

One of TasRail's major investment challenges is the continued transition to a planned maintenance regime for track infrastructure while continuing to deal with many sub-optimal, obsolete assets. While investment to date has provided valuable improvement, we still have a large portion of rail and sleepers which are beyond their use-by date. However, TasRail's planned maintenance regime has reduced its call on Tasmania Government funding with the Below Rail Infrastructure Contribution dropping from \$16 million to \$12 million over the past two financial years. It is forecast to further reduce to \$8 million in 2017/18.

Getting maintenance cost structures right, and positioning TasRail to be able to generate sufficient Above Rail Profits to reinvest, has been a key focus over the past year.

Financial results for TasRail in 2015/16 have been mixed, with an operating loss in freight operations. While the fundamentals of TasRail's operations are sound, the suspension of the Australian Bauxite Limited mine near Campbell Town had a large negative impact on our result as did the June flood event which not only impacted revenue but imposed additional costs associated with business interruption and insurance claims. Accumulated costs associated with past derailments also adversely affected the result.

TasRail recorded one mainline derailment for 2015/16. While we continue to have many challenging sections of track, understanding the causes of derailments and implementing risk avoidance strategies continues to be a priority.



For employees, TasRail's first six years of operation has been a period of major adjustment and change across almost every aspect of the business from management and equipment to operating systems and our approach to customer service. Unfortunately, the extent and speed of that change had a negative impact on workforce morale.

Based on the findings of an employee engagement survey, TasRail has undertaken a range of initiatives to better engage with its employees, culminating with the recent completion of a "People First" strategy.

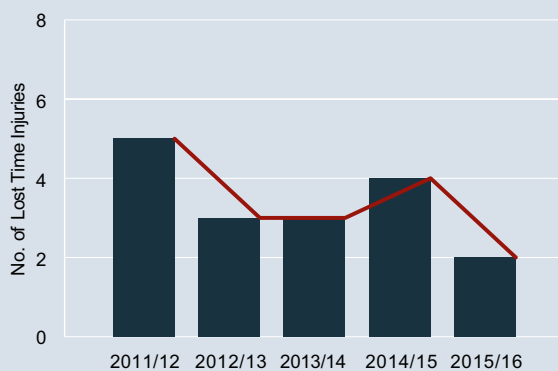


*John Duffy - Tamper Operator and  
Second Year Apprentice - Mechanical Trade*

TasRail employees have good reason to be proud of their organisation. Despite a troubled past, we are now delivering significant value to our customers, local industries and the Tasmanian community. While investment funds are important in achieving a more efficient, safe and competitive operation, it is our people who will make TasRail the successful business it intends to be. While staff engagement remains a work-in-progress, I am committed to resolving this final, and vital, part of the TasRail revitalisation.

While investment funds are important in achieving a more efficient, safe and competitive operation, it is our people who will make TasRail the successful business it intends to be.

### Lost Time Injuries 2011/12 to 2015/16



Employee safety has also seen big improvement. While there were two Lost Time Injuries reported for the year, this represents a 50 per cent improvement in safety performance.

When measured per million person hours worked, TasRail's Lost Time Injury Frequency Rate improved from 7.1 to 4.0. However, we still have some way to go before we can be called a truly 'Zero Harm' organisation. To this end, TasRail has embarked upon the 'SafetyCircle' program, which links the need for safety at work with the ability for staff to be able to pursue personal goals outside the workplace.

Looking ahead to next financial year, TasRail does not expect any immediate, sustainable change in mining activity as commodity prices remain subdued. However, continued expansion in agriculture, aquaculture and forestry should provide the opportunity to develop new supply-chain solutions for those sectors of the economy. Improved efficiencies will also result from optimising existing assets and services to further leverage rail's natural economies of scale.

Finally, the commitment, dedication and hard work of all TasRail employees throughout the year has been outstanding. Never was that more apparent than during the June flood. I want to thank each and every employee for their valued service to the Company throughout the year and especially during the flood crisis.

Damien White  
**Chief Executive Officer**



# Above Rail

The Above Rail business is the commercial arm of TasRail.

It provides safe, reliable and sustainable rail freight and logistics services to the market. Operations include freight terminals, bulk handling, storage and shiploading facilities and train services. The Above Rail business is also responsible to upgrade, maintain and operate the rollingstock fleet and to manage safe and authorised access to the network.

Through a combination of innovation, optimised performance and service excellence, TasRail is achieving an increased share of the Tasmanian freight market progressing towards business sustainability.

**Total Freight Task** ▲ 17 per cent  
 Year on Year  
**2009/10 to 2015/16**

Year	Net Tonne Kilometres (NTK) Railed	Annual Growth
2009/10 Annualised	379,243,582	First Year
2010/11	391,002,351	▲ 3 per cent
2011/12	366,019,860	▼ 6 per cent
2012/13	415,591,123	▲ 14 per cent
2013/14	407,020,900	▼ 2 per cent
2014/15	419,332,840	▲ 3 per cent
<b>2015/16</b>	<b>442,845,844</b>	<b>▲ 6 per cent</b>

**Total Freight Task** ▲ 6 per cent  
2015/16

Commodity Type	2015/16 Total Customer NTK's Hauled	2014/15 Total Customer NTK's Hauled	Percentage Change in Performance
Coal	28,001,167	30,185,320	▼ 7 per cent
Cement	25,743,097	26,396,545	▼ 2 per cent
Mineral Concentrates	22,434,584	27,066,805	▼ 17 per cent
Bauxite	5,205,395	150,333	
Logs	18,810,476	19,556,245	▼ 4 per cent
Intermodal – General	220,180,774	195,930,488	▲ 12 per cent
Intermodal – Paper	122,470,351	120,047,104	▲ 2 per cent
<b>TOTAL HAULED</b>	<b>442,845,844</b>	<b>419,332,840</b>	<b>▲ 6 per cent</b>

**Shiploader Volumes** ▼ 8 per cent



## Total Freight Task By Line

2015/16

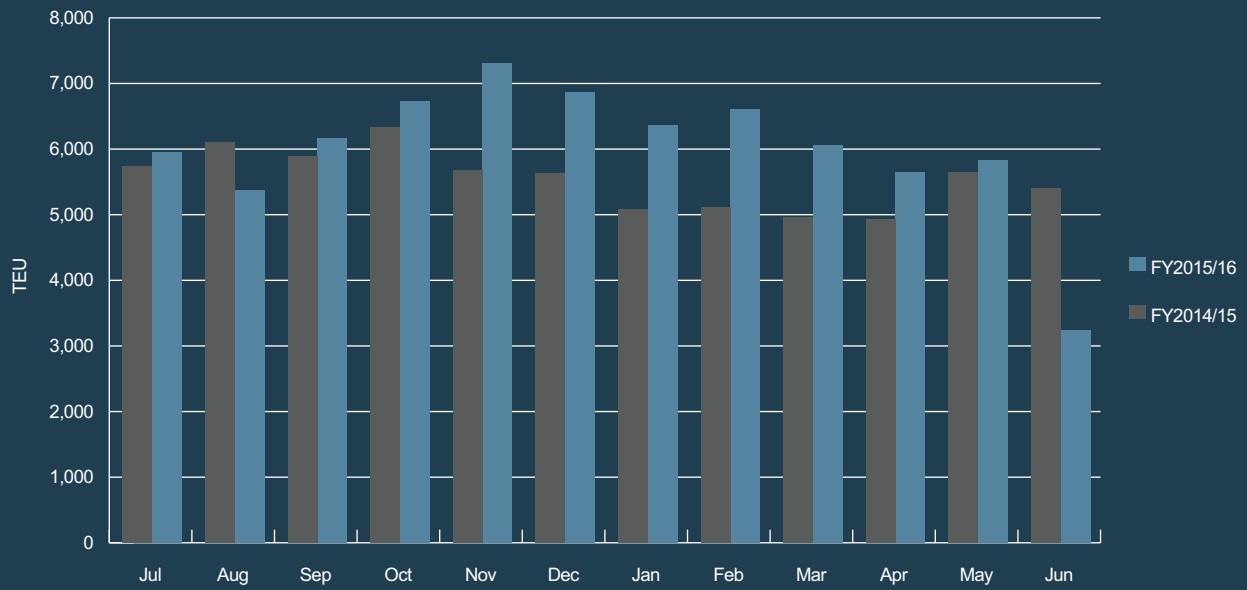
Commodity Type	Total Customer NTK's Hauled	Route	Line Segments
Coal	28,001,167	Fingal- Railton	Fingal Line South Line Western Line
		Fingal - Boyer	Fingal Line Western Line South Line Derwent Valley Line
Cement	25,743,097	Railton – Devonport	Western Line
Mineral Concentrates	22,434,584	Primrose – Burnie	Melba Line
Bauxite	5,205,395	Conara - Bell Bay	South Line Western Line Bell Bay Line
Logs	18,810,476	Brighton – George Town	South Line Western Line Bell Bay Line
Intermodal – General	220,180,774	Brighton – Devonport -Burnie	South Line Western Line
		George Town – Brighton	Western Line Bell Bay Line Derwent Valley Line
Intermodal – Paper	122,470,351	Boyer - Burnie	Derwent Valley Line South Line Western Line



## Total Twenty Foot Equivalent Containers (TEU) Hauled

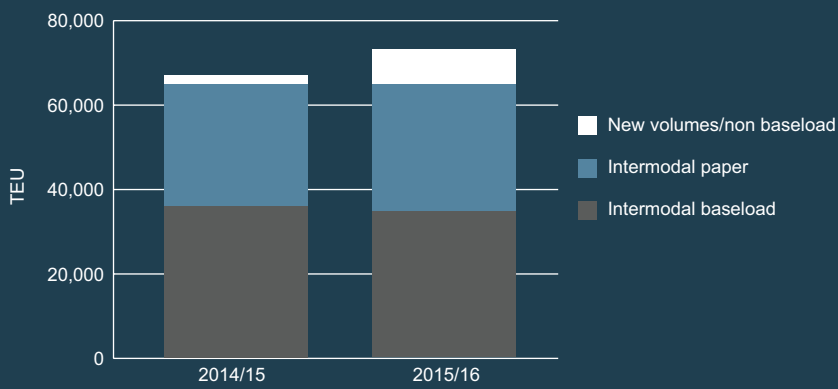
By Month

2015/16



## TEU Growth

2015/16





Since its establishment in 2009, TasRail has worked to rebuild the reputation of rail in the market as a reliable and competitive alternative to road freight, particularly for non-time sensitive and bulk tasks.

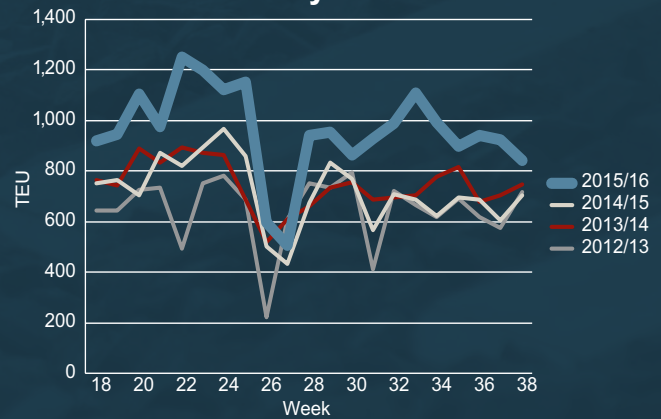
As can be seen from the tables on pages 20 through to 23 of this report, this approach has resulted in a modest but steady increase in annual freight volumes on rail. Importantly, TasRail is diversifying its freight task.

Through the combination of new assets and vastly improved asset utilisation performance, TasRail has been able to adopt a different approach to train planning and scheduling. For example the introduction of the innovative Logtainers is providing an efficiency that road transport cannot match, by enabling logs to be hauled in one direction, and using the same wagons, containers railed in the other direction. This improves the competitiveness and profitability of intermodal services.

Having four freight terminals has changed the way TasRail operates and markets its services. The new Burnie Rail terminal has improved freight availability times and utilisation of rail assets, which in turn is facilitating the receipt and delivery of freight with new customers. The new George Town Terminal opened in September 2015 and is providing industry from the surrounding major industrial precinct with the option to rail product to market via the ports at Devonport and Burnie. A growing volume of new rail freight through Brighton is being capably handled in conjunction with onsite customer activities.

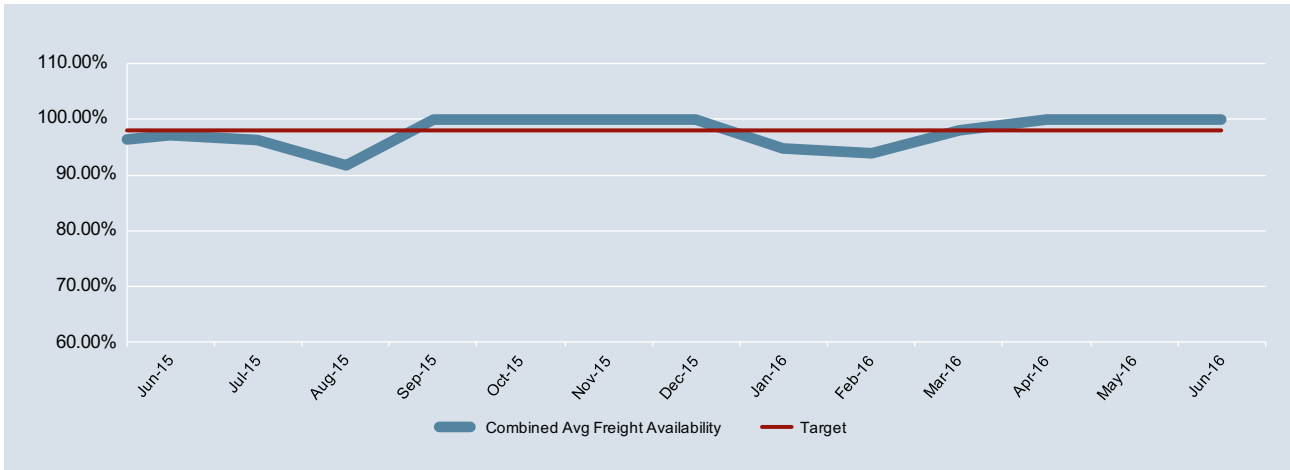
The re-opening of the Devonport Rail Terminal and a new approach to marketing that targets key freight flows, has enabled TasRail to achieve further increases in general intermodal freight volumes. This incremental growth is mainly from new and returning customers to rail.

**TEU by Week**



During the month of November 2015, TasRail set a new record for TEU volumes on rail, reporting the largest uplift of container freight in TasRail's history at 1,247 TEU railed in one week. The previous best was 1,104 TEU achieved in the same month. By way of comparison, TasRail reported an average of 750 TEU per week during the same peak period in 2014.

## Freight Availability - General Intermodal



## Rollingstock Asset Utilisation

**2015/16**    24 locomotives    **18,451,910 NTK per locomotive**    ▲ 32 per cent  
**2014/15**    30 locomotives    13,977,761 NTK per locomotive

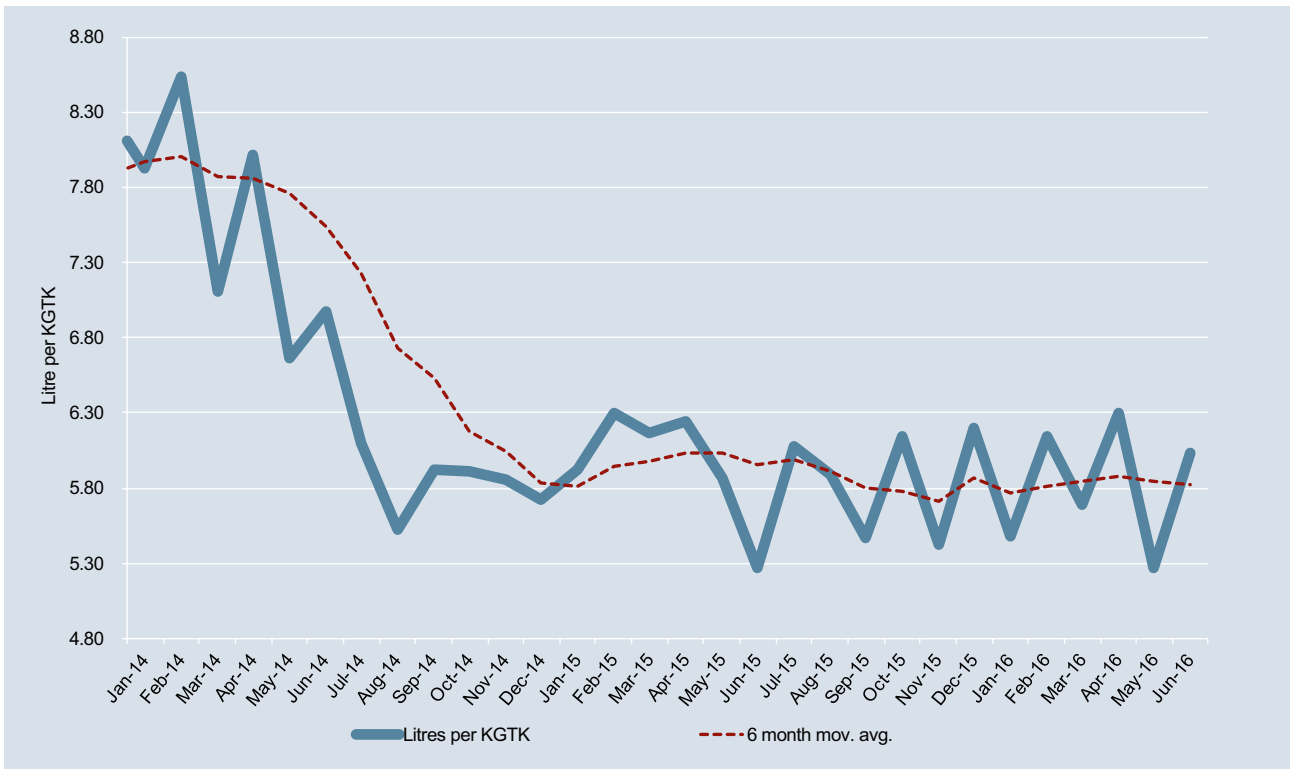
**2015/16**    267 wagons    **1,658,599 NTK per wagon**    ▲ 8 per cent  
**2014/15**    272 wagons    1,541,665 NTK per wagon



Jason Terry - Operations Supervisor (South)



### Fuel Litres Consumed Per 1,000 Gross Tonne Kilometres



TasRail's Fuel Conservation Program is continuing to achieve a steady reduction in consumption. The trend line provides a more accurate indicator of actual consumption. The monthly variation shown in the graph is mainly due to the timing of fuel readings at storage locations and held in locomotive tanks.

A close-up, low-angle shot of railway tracks. The tracks are made of metal rails on concrete sleepers, with a thick layer of dark grey gravel ballast underneath. The perspective is from a low angle, looking down the length of the tracks, which recede into the distance. The lighting is somewhat dim, creating a moody atmosphere.

# Below Rail

This is the maintenance division of TasRail. It is responsible to upgrade, maintain and operate the rail network and the entire supporting infrastructure including bridges and culverts, tunnels, formation and level crossings.

By operating both the Below and Above Rail operating segments, TasRail is able to schedule its resources to deliver a fit for purpose network that meets the specific safety, reliability and transit requirements of the market segments that it operates in. This results in less duplication of resources and more efficient maintenance and investment outcomes.

## Track Quality Index as at 30 June 2016

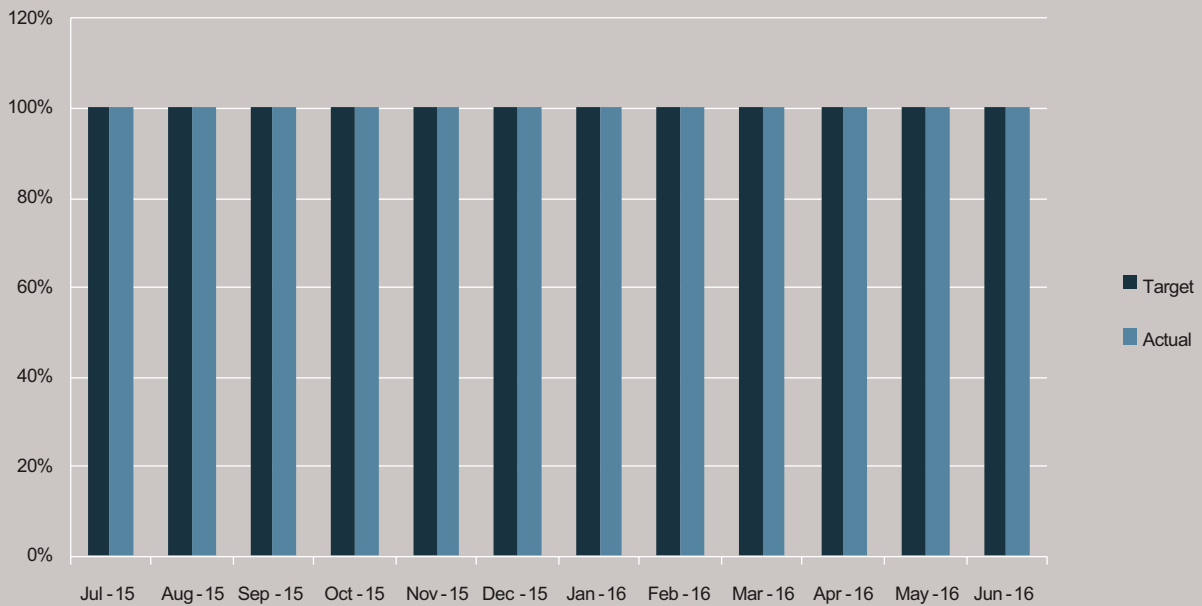
Line	Percentage of track rated GOOD		Percentage of track rated FAIR		Percentage of track rated POOR		Percentage of track rated VERY POOR	
	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15
<b>Western</b> <i>20 per cent concrete sleepers</i>	<b>66.59</b>	58.85	<b>26.38</b>	32.58	<b>6.52</b>	8.06	<b>0.51</b>	0.51
<b>South</b> <i>20 per cent concrete sleepers</i>	<b>50.34</b>	53.56	<b>37.49</b>	36.57	<b>10.65</b>	9.03	<b>1.52</b>	0.85
<b>Melba</b>	<b>39.30</b>	32.74	<b>44.93</b>	52.95	<b>14.73</b>	13.66	<b>1.01</b>	0.65
<b>Bell Bay</b>	<b>40.81</b>	50.92	<b>47.61</b>	40.26	<b>10.29</b>	8.27	<b>1.29</b>	0.55
<b>Fingal</b>	<b>78.23</b>	74.91	<b>16.46</b>	20.32	<b>4.25</b>	3.71	<b>1.06</b>	1.06
<b>Derwent Valley</b> <i>Bridgewater to Boyer</i>	<b>46.62</b>	49.25	<b>34.59</b>	34.33	<b>18.05</b>	15.67	<b>0.75</b>	0.75

The \$119.6 million tranche one of funding for the Tasmanian Freight Rail Revitalisation Program is being used to target the most critical sections of track on major freight rail corridors and to arrest the decline of other sections as much as is possible within the available funding. This is a four year Infrastructure Investment Program (to 30 June 2019) that is jointly funded by the Australian and Tasmanian Governments. Both governments have committed to a second tranche of \$119.6 million in the outer years that will enable TasRail to complete the remainder of this planned renewals program.



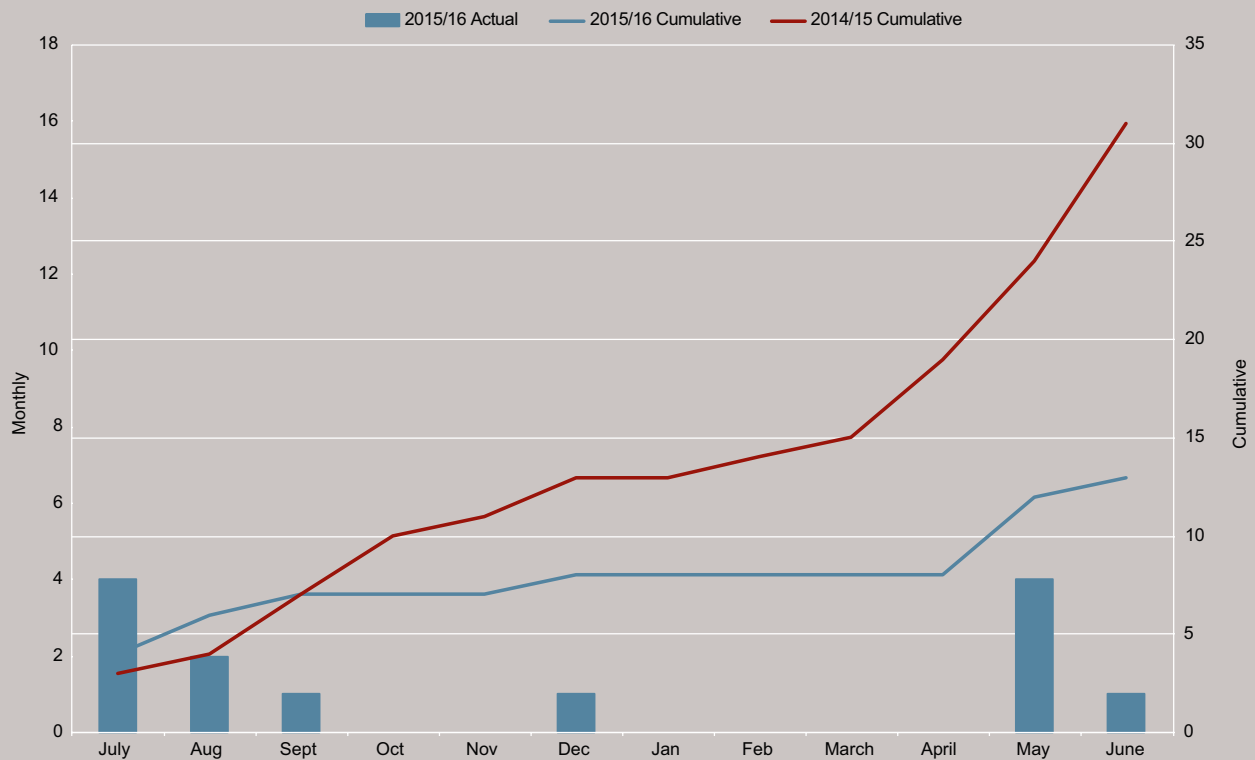
From left to right: John Duffy, Marko Stepanovic, Ian Hunter, Darren Hawkins. Absent: Sutee Channavy

## Track Inspections Per 96 hours



TasRail maintains the operational network in accordance with Track Engineering Standards that are consistent with industry best practice. This includes physical inspection of the infrastructure every 96 hours to identify any non-compliance with the Standard and to detect and mitigate derailment risk. During 2015/16 TasRail purchased a number of digital track geometry trolleys that have enhanced the effectiveness of these inspections by providing more consistent and accurate information.

## Broken Rail



Rail defects are detected using annual ultrasonic testing. The deployment of additional welding teams to repair identified rail defects helped to reduce the number of reported broken rails by more than 50 per cent for the year. Dramatic changes in temperature increases the potential for rail breaks. For example, colder temperatures cause the rail to contract and this places more stress on rail.

## Delivering Value

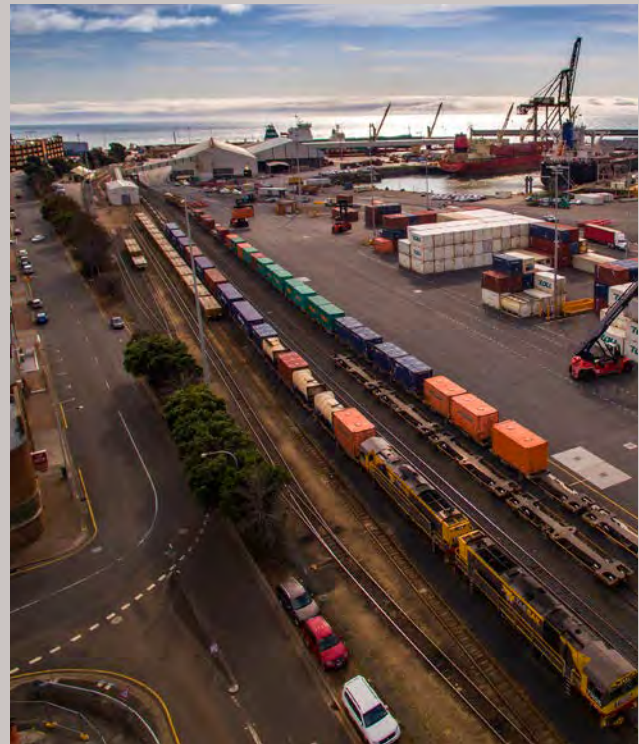
The Below Rail infrastructure will always require funding to assist with the cost of maintaining the network and associated infrastructure. This is no different to the road network.

As can be seen from the graph below, the amount of the annual Below Rail Infrastructure Contribution (BRIC) from the Tasmanian Government has reduced in recent years and is forecast to fall further in 2017/18.

The BRIC is essential to ensure that these strategic assets are maintained to an appropriate standard and to avoid a return to the problems of the past where the infrastructure was allowed to deteriorate to the point it was no longer of a condition capable of supporting safe or reliable freight operations. TasRail directly contributes to the cost of Below Rail maintenance through access fees paid by the Above Rail business for its use of the network. The access fee amount is paid in accordance with the Transitional Access Regime, as determined by the State Government.

TasRail asserts that rail is the most efficient freight mode on major freight corridors, as well as for heavy freight movements over short and medium distances.

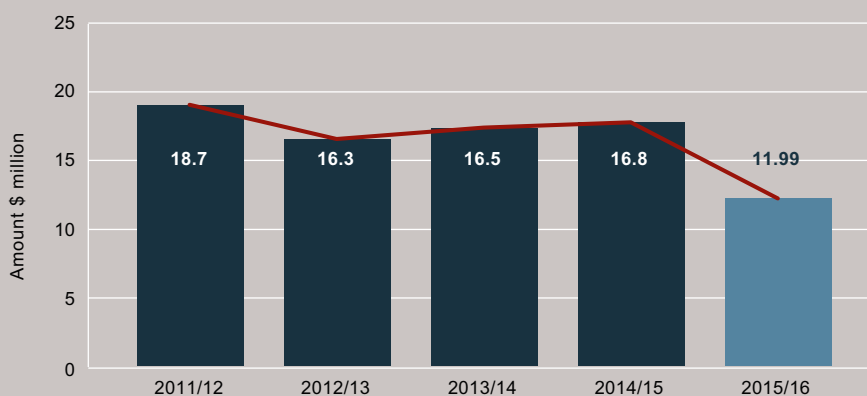
Using statistical data from the Bureau of Infrastructure, Transport and Regional Economics; the National Transport Commission; AustRoads publications; and road accident statistics and costs, independent consultants pitt&sherry found that by hauling TasRail's freight task on rail rather than road, approximately \$26 million of annual value is generated for the State.



The value is identified as avoided road maintenance and road accident costs, environmental savings and reduced operating costs for business and industry. Taking into account the cost of funding the BRIC, this equates to a net benefit to the State - or dividend - of nearly \$15 million per year.

pitt&sherry conclude that the value of rail to Tasmania is set to increase consistent with the expected growth in TasRail's share of the contestable freight market.

### Tasmanian Government Below Rail Infrastructure Contribution 2011/12 to 2015/16





## June Flood Event



TasRail's customers and industry leaders have been most positive in their praise for the way TasRail approached the situation.



On 6 June 2016 Tasmania experienced a severe flood event that inundated critical rail infrastructure and forced the suspension of all services across the Tasmanian Rail Network. Rail infrastructure was damaged at 65 locations, including five rail bridges and landslips on the Melba Line as well as the Western and South Lines on which TasRail hauls 68 percent of all contestable freight.

The most significant damage was to the Kimberley Rail Bridge. One span and the western embankment washed away in surging flood waters, severing the critically important rail link between the major ports of Burnie and Devonport and the rest of the rail network for six weeks. Around 97 per cent of all container movements in and out of Tasmania are through these ports.

TasRail's response was immediate, proactive and prioritised in consultation with its customers. The impetus was to find interim freight solutions to keep the wheels of industry turning by maintaining delivery of supplies and getting their products to market on time. In parallel, the deployment of resources to assess and confirm infrastructure repairs was a constant challenge. The engineering work to inform urgent repair of the Kimberley Rail Bridge was a major undertaking.

Despite the enormity of the task confronting them, TasRail employees and contractors worked tirelessly to complete all of the repairs, often in difficult conditions. Remarkably, freight services between Devonport and Railton had resumed in full within 24 hours. As other rail corridors were progressively re-opened, TasRail was able to offer intermodal customers increased options and services by utilising rail operations from its George Town, Launceston and Western Junction Terminals.

A temporary container transfer terminal was quickly established at Conara, with the capacity to handle a majority of TasRail's intermodal freight task. With the co-operation of the road transport industry, normal freight flows were able to resume between the South and major ports within ten days. A total of 4,434 TEU was moved through the terminal during its 37 days of operation. Road contractors were also engaged to keep bulk freight moving for affected customers. The Kimberley Rail Bridge re-opened on 21 July, heralding the full resumption of freight rail services across the network.

The damage bill resulting from the flood event is expected to cost TasRail in the order of \$9 million, across two financial years. The Company is insured for the property damage that occurred to the operational network, but under the terms and conditions of its insurance arrangements TasRail is required to fund a \$2 million deductible. Flood damage that occurred on the non-operational lines is not covered by TasRail's insurance.

TasRail's decision to assume responsibility for providing alternate freight transport arrangements was bold, but from a financial perspective, it delivered a better financial outcome than would otherwise have been the case had the Company simply relied on force majeure provisions.

TasRail's customers and industry leaders have been most positive in their praise for the way TasRail approached the situation. The TasRail Board described the efforts of employees and contractors throughout the flood recovery effort as 'nothing short of inspiring'.

## Tasmanian Freight Rail Revitalisation Program Infrastructure Investment Project (IIP) 1 July 2015 to 30 June 2019

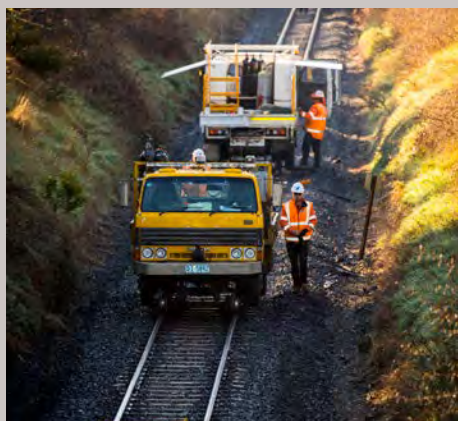
The Tasmanian and Australian Governments confirmed their support for the continued rejuvenation of the operational freight rail network, committing \$119.6 million of Infrastructure Investment Project (IIP) funding over four years to 30 June 2019.

The investment recognises rail as an integral part of Tasmania's Freight Transport System and its role in providing a more competitive freight market for Tasmanian industry and commerce. TasRail currently hauls more than 50 per cent of Tasmania's contestable freight hauled on corridors covered by the rail system.

A majority of the IIP funding will be allocated to the major freight corridors of the South Line, the Western Line and the Melba Line, with provision for selected re-sleeping and re-railing on the Fingal Line and Bell Bay Lines, and priority sections of the operational Derwent Valley Line to Boyer.

In contrast to past upgrades, this first tranche of IIP funding will be largely directed to maintaining the safety and reliability of the network and strategic investments to reduce annual maintenance costs. While a step-change in asset condition has been achieved through past investment in the network, there remain significant portions of track and sleepers that are well beyond their design life and in need of replacement.

TasRail has a proven track record with the delivery of multiple and complex projects on time and on budget. Its dedicated IIP Project Team wasted little time in scoping the four year program of works and as at 30 June 2016, expenditure committed in the first year of the program was \$33 million. A total of nine tenders was awarded to predominantly Tasmanian Companies, with a number of early works packages already complete. The approach to progressively release work tenders is ensuring a more even distribution of work for the civil construction industry which in turn assists the sector with workforce planning, skills development and retention.



Activity	Four Year Program Scope by 30 June 2019	First Year Completion Total to 30 June 2016	Percentage Progress Total to 30 June 2016
New sleepers	68,500	<b>21,602</b>	31
New rail (metres)	99,000	<b>19,807</b>	20
Bridge repairs/upgrades	20	-	-
Reconstruction of level crossings	27	<b>7</b>	26
Rehabilitation of culverts	68	<b>8</b>	12
Landslip repairs	12	-	-
Track welds	10,368	<b>2,578</b>	25
New ballast (tonnes)	74,772	<b>12,858</b>	17
Tamping (metres)	103,391	<b>19,810</b>	19

# Company Performance

Achieving synergy and operational excellence relies on everyone across the vertically integrated organisation working together to achieve common goals and performance outcomes, consistent with four key organisational objectives:

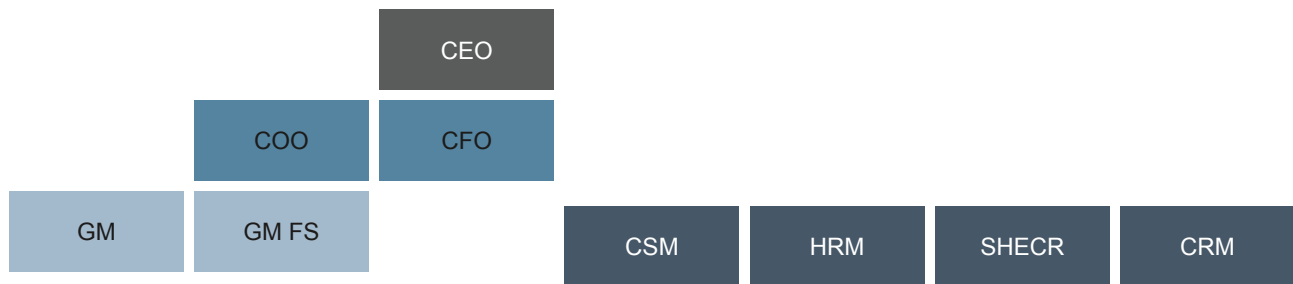
Zero harm to our people, contractors, the environment and the community.

Building capability through inclusion, collaboration, consultation and the development of high performance teams.

Meeting customer expectations through the provision of consistently high quality service.

Delivering business sustainability.

## Executive Team



*From left to right: Jennifer Jarvis - Corporate Relations Manager (CRM)  
Jim Burden - Human Resources Manager (HRM)  
Jon Drew - General Manager Asset Management (GMAM)  
Ian Chapman - Safety, Health, Environment and Corporate Risk Manager (SHECRM)  
Steven Dietrich - Chief Financial Officer (CFO) and Company Secretary  
Shannon Cox - Commercial and Strategy Manager (CSM)  
Damien White - Chief Executive Officer (CEO)  
Bob Parton - General Manager Freight Services (GMFS)  
Stephen Kerrison - Chief Operating Officer (COO)*

## Workforce Profile

### Total Number of Full Time Equivalents (FTE) as at 30 June 2016

	2015/16	2014/15	Change in Performance
Permanent Full Time	202.2	214	▼ 11.8
Permanent Part Time	12.2	8.4	▲ 3.8
Casual	2.8	6.0	▼ 3.2
Fixed Term	13.8	7.2	▲ 6.6
<b>TOTAL</b>	<b>231.0</b>	<b>235.6</b>	<b>▼ 4.6</b>

### Divisional Profile

#### Freight Services/Operations



#### Asset Management



#### Corporate Services



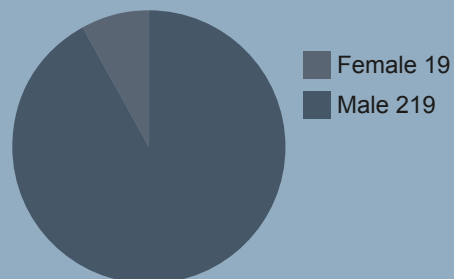
### Service Years

by FTE

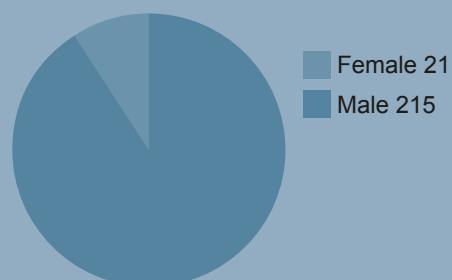


### Gender

by head count  
as at 30 June 2016



as at 30 June 2015



## Building Better Leaders



TasRail is supporting its leaders to attain the competency and commitment required to deliver high performance teams and model behaviours aligned with TasRail's Values.

TasRail recognises the importance of supporting and equipping its leaders with the skills and capability to engage, motivate and develop their teams to meet departmental and corporate goals, and to develop and realise their potential.

The demands on employees with people management responsibilities have increased. They are not only required to meet the operational requirements of the organisation but also the way that change - large and small - is managed and communicated.

TasRail acknowledges that as the pressure to deliver complex projects simultaneous with operational results intensified in recent years, its leadership focus had unintentionally waned to a level where it was impacting staff morale. Although sobering, this learning provided a significant catalyst for change.

Over the past year, TasRail has prioritised and invested in a suite of leadership programmes. These include a series of development workshops, small group coaching, 360° feedback and mentoring and leadership exchange opportunities that are valued by those in the leadership population. But leadership development is not only happening at the top levels of the organisation. It is a distributed process that strongly supports all leaders to attain the competency and commitment required to deliver high performance teams and model behaviours that are aligned with TasRail's Values.

## Engaging Our Workforce

A formal employee engagement survey was undertaken during August and September 2015.

TasRail engaged independent specialists to design and conduct the survey with employees able to submit their responses via a secure online server or via hard copy returned directly to the specialists.

The survey was well received, achieving an 80 per cent response rate.

While the survey highlighted positive results in several areas including safety, the overall findings revealed shortcomings in the working relationship between management and frontline staff, and comparatively low levels of employee engagement.

All of the survey results were presented 'warts and all' to employees, through a series of briefings conducted by the CEO and the Executive Team. The briefings provided opportunity for full and frank discussions with staff, enabling the leadership team to gain a more comprehensive understanding of concerns and shortcomings. The CEO gave his personal commitment to addressing the issues raised and to putting in place the appropriate structures, training and accountabilities for making employee engagement a priority for everyone from the top down.

A significant amount of work has since been progressed to resolve many of the issues identified through the survey. New initiatives have been introduced to improve the level of consultation, communication and direct engagement.

It is recognised that leaders from right across the organisation have a profound effect on employee engagement. Unlocking this potential through coaching and mentoring, empowering and holding them accountable is a fundamental change that is now reflected in performance and development planning processes.

TasRail recognises that employee engagement is integral to job satisfaction and the Company's capacity to achieve success. Through the honesty and candour demonstrated by employees, and the willingness of the CEO and the leadership team to genuinely turn things around, TasRail is well on the way to being a better, stronger organisation that puts people first.



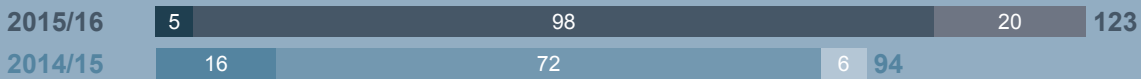
*Chris Baric - Terminal Supervisor (North)*



*Adrian Hickman - Working Maintenance Supervisor (South)*

## Level Crossing Safety

Failure to Stop or Give Way Incidents - Vehicles and Pedestrians ▲ 31 per cent

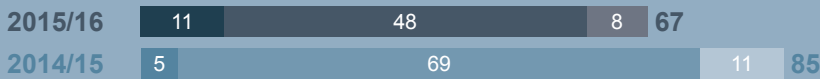


## Collisions - Vehicle / Pedestrians

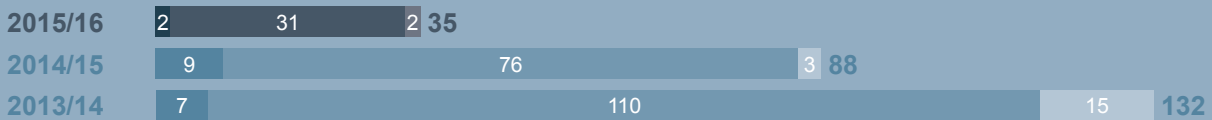


North	Conara to Western Junction; Western Junction to Bell Bay; Fingal to Conara
North West	Western Junction to Burnie; Burnie to Melba
South	Boyer to Brighton; Brighton to Conara
North	Conara to Western Junction; Western Junction to Bell Bay; Fingal to Conara
North West	Western Junction to Burnie; Burnie to Melba
South	Boyer to Brighton; Brighton to Conara

Trespass ▼ 21 per cent



Train Horn Complaints ▼ 60 per cent



The increase in train horn complaints recorded in 2013/14 followed the introduction of the new locomotive fleet in April 2014.





## Rail R U OK Day

Rail R U Ok? Day is an important national event that was launched on 21 April, 2016. As an active participant in this annual, industry-wide initiative, TasRail is working to create an environment of support and encouragement for staff by promoting the need for colleagues to look out for one another by asking a simple question - R U OK? Such conversations have the power to transform a workplace into a strong and resilient community, and they help to remove the stigma surrounding emotional and mental trauma that might manifest as a result of exposure to incidents on the rail network.

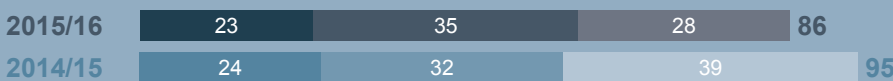
All too often, TasRail employees going about their daily job are exposed to unpredictable near miss incidents caused by rail trespass and vehicles ignoring level crossing signs and signals. In 2014/15 there were 123 such incidents – that’s about one every three days. Any one of these incidents had the potential to result in tragedy, but many of them impacted the health and wellbeing of the rail workers involved, particularly train drivers. Rail R U Ok? Day 2016 saw TasRail launch a number of initiatives to promote the importance of positive mental health in the workplace. These included the new RailRes app developed by the trackSAFE Foundation. The app is free to download and is a great resource to assist rail employees manage their immediate response to stress. It includes interactive tools for exercise and a place where workers can test their response to stress and adjust their physical, cognitive and behavioural reactions.

TasRail employees also have access to an Employee Assistance Program and an R U OK? portal via the Company intranet. The portal is a depository for a range of resources including information booklets, training materials and video stories of inspiration.

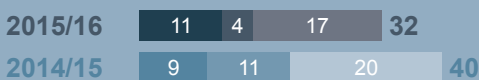


From left to right:  
Adam Willis - Specialist Adviser Safety Risk Management  
Peter Standaloft - Electrical Supervisor

## Livestock in the Rail Corridor ▼ 9 per cent



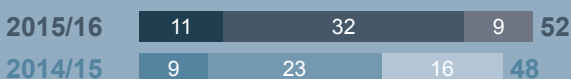
## Animal Collisions ▼ 20 per cent



North	Conara to Western Junction; Western Junction to Bell Bay; Fingal to Conara
North West	Western Junction to Burnie; Burnie to Melba
South	Boyer to Brighton; Brighton to Conara

North	Conara to Western Junction; Western Junction to Bell Bay; Fingal to Conara
North West	Western Junction to Burnie; Burnie to Melba
South	Boyer to Brighton; Brighton to Conara

## Vandalism & Theft ▲ 8 per cent



## SafetyCircle

A key initiative in TasRail's journey to zero harm saw the introduction of the SafetyCircle program early in 2016.

SafetyCircle is a powerful tool that is transforming the workplace health and safety culture at TasRail. The program uses straight forward language and ideas to focus everyone on the goal of everyone 'Home Safe and Well Today'. It builds a positive safety culture by opening the eyes and minds of employees to the reality that staying safe is in their personal interest.

Each employee has the power to foster, uphold and follow safety rules; and importantly, to demand this of TasRail and their colleagues.

One hundred per cent of the TasRail workforce attended SafetyCircle training which predominantly involved facilitated group conversations to investigate the real core of workplace health and safety and the typical reasons why unsafe acts occur. By focussing on what it takes to stay safe and empowering all employees to take control over their own safety, they develop confidence to intervene whenever they identify unsafe acts or conditions.

The SafetyCircle program has been embraced by all employees and is considered a key enabler to TasRail achieving a step-change in workplace health and safety performance.



*Rhys Prestidge - Rollingstock Asset Manager*

## Tourist and Heritage Rail

The work to investigate pathways with potential to grant access to sections of non-operational lines for tourist and heritage railways continued to be a complex area of work for TasRail during 2015/16.

Tourist and Heritage Railways have not operated on the Tasmanian Rail Network since their access was withdrawn by the then owners of the railway, Pacific National, more than ten years ago. Under the arrangements that prevailed at the time, Pacific National had identified that by taking on the accreditation risk for Tourist and Heritage operations, it was exposed to an unacceptable level of liability, hence the access was withdrawn. TasRail finds itself in a similar position.

Since that time, there have been changes to the legal and regulatory framework that governs rail activities on the Tasmanian Rail Network - most significantly, the advent of the *Rail Infrastructure Act 2007 (Tas)* and *National Rail Safety Law 2012 (Tas)*. Navigating this governance framework to identify options for third party access, and undertaking the appropriate due diligence by which to identify and confirm the risks and liabilities that arise for TasRail in these circumstances, has not been a simple task. As the work has progressed, a more complex set of issues was revealed.

In parallel with this work, TasRail was receiving requests for access to the non-operational lines from multiple parties with competing interests, and for both rail and non-rail activities. Having reached the conclusion that there is little likelihood of a freight task of the scale required to justify the investment required to recommission a non-operational line in the medium term, TasRail formed the view that decisions about the future use of these assets is beyond its remit and is appropriately a matter for government to determine.

Notwithstanding the issue of access, a third party seeking to operate a rail activity on the Tasmanian Rail Network still needs to resolve other threshold issues for which TasRail has no responsibility or influence over. These include the requirement for the operator to attain Rail Safety Accreditation in their own right from the independent Office of the National Rail Safety Regulator; the need to secure the necessary capital required to upgrade the infrastructure to the required standard; access to sufficient operating capital to sustain the activity; and the affordability of Public Liability Insurance.

In the meantime, TasRail maintains an open dialogue with Tourist and Heritage Railway organisations and it continues to provide support through the donation of surplus equipment and redundant assets.





# Corporate Governance

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

## Corporate Governance Framework

TasRail is managed by a Shareholder-appointed Board of Directors. The Board operates under a framework that is consistent with the ASX Corporate Governance principles and recommendations:

### Principle 1 – Lay solid foundations for management and oversight:

The TasRail Board is made up of five independent Non-Executive Directors. The responsibilities of individual Directors and the Company's expectations of them are set out in their letters of appointment and the Board Charter.

The Company Secretary is accountable to the Board, through the Chairman, on all matters to do with the proper functioning of the Board.

The Board Charter requires annual reviews of the Board, its Committees and Directors. The process for evaluations is in line with the Guidelines "Assessing Board Performance" issued by the Shareholder Members.

The Chairman and the CEO, along with the Portfolio Minister appear before and respond to Parliamentary Scrutiny Committee(s) as and when required.

### Principle 2 – Structure the Board to add value:

All TasRail Directors are independent of management. Directors have an ongoing requirement to notify the Board of any material personal interest in any matter relating to the affairs of TasRail. The Chairman is an Independent Director and is not an Executive of the Company.

Directors are selected and appointed on the basis of their skills and experiences and in consideration of diversity and independence, probity and background checks. The appointment involves the creation of a Director Selection Advisory Panel. An executive search firm is appointed to assist the panel to identify potential candidates. TasRail maintains a Board Skills Matrix, setting out the mix of skills and diversity that the Board has.

The Board Charter recognises the importance of effectively inducting new Directors and the value of continuing professional development for its members. An induction program is administered by the Chairman with the support of the Company Secretary and CEO.



*The TasRail Board of Directors  
From left to right: Robert Neil, Sarah Merridew, Robert Annells (Chairman), Samantha Hogg and David George*

## Corporate Governance Framework (continued)

### Principle 3 – Act ethically and responsibly:

The Board Charter commits the Board to maintaining the highest ethical standards. It expects that Directors will demonstrate the spirit and intent of its Code of Conduct as well as comply with all applicable legislation, lawful directions from Shareholders and Company policies.

Each Director is bound to uphold the Code of Conduct by exhibiting model performance, behaviour and conduct that is in line with the Code during the course of their employment. They must promote the Code and ensure that any potential breaches are taken seriously, identified and reported and acted upon appropriately. The Code of Conduct is underpinned by other policies and procedures that articulate the expectation to act ethically and responsibly, as well as comply with legislative and regulatory obligations. These include the Right to Information Policy, Privacy Policy, Procurement Procedure, Public Interest Disclosures ('Whistleblowers') Policy and People Management Business Critical Process.

### Principle 4 – Safeguard integrity in corporate reporting:

The Board operates a Finance, Audit and Compliance Committee that assists the Board to discharge its duties in relation to its corporate and financial reporting processes, internal and external audit, and compliance.

The Committee reviews the Company's financial statements and associated reports and recommends them to the Board for consideration. As part of the end-of-year processes, the Committee ensures the CEO and CFO provide the required declarations under S295A of the *Corporations Act* and formally sign the accounts before it makes any recommendations to the Board.

The TasRail Constitution provides that the Company is required to use the Tasmanian Auditor-General for its external audit. Members confirm the appointment of the external auditor at each Annual General Meeting. The auditor attends the Annual General Meeting to discuss any issues with members. The Finance, Audit and Compliance Committee also meets with the external auditor without management present from time to time.

TasRail's Annual Reports are provided to Shareholders by the end of October each year. The Reports are tabled in each House of the Tasmanian Parliament and are subject to the scrutiny of all Members of the Parliament and the community.

### Principle 5 – Make timely and balanced disclosure:

TasRail is required by its Constitution to communicate with its Shareholder Members and others, via regular and irregular reporting and other means of communication. In practice, there is a flow of information throughout the year on important matters to ensure Shareholders are kept informed. If the Directors at any time form the view that matters have arisen that may prevent, or significantly affect achievement of the objective, strategies, policies or financial targets of the Company, the Directors must promptly notice the Shareholder Members.

Details about disclosures made under the *Right to Information Act 2009*; the *Public Interest Disclosures Act 2002*; and the *Personal Information Protection Act 2004* are set out on page 46 of this document.

## Principle 6 – Respect the rights of Shareholders:

TasRail's Constitution specifies the rights and powers of the Shareholder Members. The Board has procedures for communication with Shareholder Members to ensure they have timely access to information about the Company, including its financial situation, performance, governance and any sensitive matters about which they need to be aware.

Consistent with the *Rail Company Act 2009*, Directors must comply with the lawful directions given in writing by the Shareholder Members.

## Principle 7 – Recognise and manage risk:

Under its Charter, the Board commits to ensuring TasRail effectively manages its strategic, financial, operational, reputational and emergency risks. The Board also ensures that an effective system of risk management and internal control operates within the Company and that it regularly monitors the performance of that system.

TasRail's Risk Management Framework is approved and overseen by the Board. The Executive Team discuss and review emerging and actual risks in the Company's external and internal environment and use this analysis to make decisions and agree on risk mitigation plans. They report on risk and risk management to the Strategy and Risk Management Committee. This Committee assists the Board to discharge its duties by reviewing and supplementing the reports provided by the Executive Team, monitoring the strength and reliability of the framework and reporting to the Board on the status of risk in the Company.

TasRail provides its Shareholder Members with information about risk by including key financial and operational risks in the annual corporate plan and regularly discussing risks at Shareholder briefings.

## Principle 8 – Remunerate fairly and responsibly

The Board has specifically retained responsibility for approving the Remuneration and Incentive Framework and Policies, Organisational Structure amendments and conditions of employment.

The Governance and Remuneration Committee comprises five independent Non-Executive Directors. Its Charter sets out the Committee's role as assisting the Board to meet its responsibilities by:

- Ensuring TasRail's remuneration and incentive policies, practices and performance indicators are aligned to the Board's vision, values and overall business objectives;
- Ensuring TasRail's remuneration policies meet the requirements outlined in the Guidelines for Tasmanian Government Businesses, Director and Executive Remuneration;
- Reviewing and recommending to the Board remuneration policies and practices to be introduced at TasRail;
- Reviewing and recommending to the Board principal terms of employment contracts including the remuneration packages for the CEO and senior executives;
- Reviewing and recommending to the Board remuneration of the CEO annually;
- Monitoring the performance of the CEO and key performance indicators to determine and recommend to the Board performance criteria and payments;
- Reviewing the CEO's recommendations regarding Enterprise Agreement strategy and remuneration under other arrangements for company staff, and ensure remuneration is aligned with market trends.

The Committee also ensures remuneration reports are provided to Shareholder Members as required.

## Public Interest Disclosures

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

The *Public Interest Disclosures Act 2002* provides protection to persons who make disclosures in accordance with the Act and establishes a system for the matters disclosed to be investigated and for rectifying actions to be taken.

TasRail has adopted Model Procedures to be followed by Public Bodies in relation to Public Interest Disclosure (PID). These procedures establish a system for reporting disclosures of improper conduct or detrimental action by TasRail or members, officers or employees of the public body. They are also intended to assist TasRail's members, officers and employees to understand the way in which the *Public Interest Disclosures Act 2002* operates and is to be administered.

The procedures are designed to complement normal communication channels between supervisors and employees and have been prepared in accordance with Guidelines and Standards published by the Ombudsman under s 38(1)(c) of the Act.

Under the *Public Interest Disclosures Act 2002* TasRail is required to report on any disclosures about improper conduct by its public officers or TasRail. In accordance with the requirements of Section 86 of the Act, TasRail advises that:

- a) TasRail's procedures under the Act are available at [www.tasrail.com.au](http://www.tasrail.com.au) or email [PD.Officer@tasrail.com.au](mailto:PD.Officer@tasrail.com.au)  
Alternatively you can write to:  
Protected Disclosure Officer, TasRail, PO Box 335,  
Kings Meadows, Tasmania 7249
- b) No disclosures were made to TasRail during the year and therefore TasRail has no Public Interest Disclosures to report.
- c) No public interest disclosures were investigated by TasRail during the year.
- d) No disclosed matters were referred to TasRail during the year by the Ombudsman.
- e) No disclosed matters were referred by TasRail during the year to the Ombudsman to investigate.
- f) No investigations of disclosed matters were taken over by the Ombudsman from TasRail during the year.

g) There were no disclosed matters that TasRail decided not to investigate during the year.

h) There were no disclosed matters that were substantiated on investigation as there were no disclosed matters.

i) The Ombudsman made no recommendations under the Act that relate to TasRail.

## Right to Information

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

During 2015/16 TasRail received a total of four applications for Assessed Disclosure. In two of the determinations, the information was provided in full. In one determination the information applied for was provided in part with the balance claimed as exempt information. There was one application not accepted where the information applied for was not in the possession of TasRail.

TasRail embraces the objectives of the *Right to Information Act 2009* by routinely publishing information that it considers to be of interest to the public. TasRail's preferred method of disclosure of information is proactive disclosure via its publications and via its website and social media.

## Personal Information Protection

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

No reports were made under this regime for the 2015/16 reporting period.



## Buy Local

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

A Tasmanian business is defined as a business operating in Tasmania, which has a permanent office or presence in Tasmania and employs Tasmanian workers. TasRail endeavours to support many local businesses, but is effectively only able to identify a business as being Tasmanian if the invoice payment and/or the Australian Business Number (ABN) is registered to an address within the State.

Purchases are defined to include operating expenses together with capital expenditure. The above excludes employment and finance expenses and depreciation.

## Purchases from Tasmanian Businesses

Buy Local Performance	2015/16
Percentage of purchases from Tasmanian businesses	48
Value of purchases from Tasmanian businesses	\$30,034,295

Purchases in 2015/16 from non-Tasmanian businesses and not available in the State include \$6 million of rail and sleepers from South Australia; \$5 million for new wagons; \$500,000 for train control communications technology. Other purchases, such as ballast materials, were made in Tasmania from a local company, but with the invoice paid to a corporate office with an interstate address.

## Payment of Accounts

TasRail complies with the Tasmanian Government Policy that requires State Owned Companies to:

- Implement appropriate policies and procedures to ensure that all accounts are paid on time, and if not, interest is to be paid for late payments.
- Pay invoices of less than \$50,000 within 30 days, or if a shorter term has been agreed, within the shorter term.
- Pay invoices with a value above \$50,000 in accordance with the agreed terms and by the due date.

The expectation is that TasRail will pay all invoices correctly rendered by suppliers within the period specified by the supplier; or where the contract is silent on payment requirements, within 30 calendar days of the date of the correctly rendered invoice.

Payment of Accounts Performance Measures	2015/16
Creditor Days	22.8
Number of accounts due for payment	10,215
Number of accounts paid on time	10,212
Amount due for payment	\$63,512,090
Amount paid on time	\$63,492,450
Number of payments for interest on overdue accounts	3
Interest paid on overdue accounts (including late fees)	\$6



## Contractors

One major contract valued at more than \$2 million (but less than \$5 million) was awarded during 2015/16. This works package was for the rehabilitation of 16 culverts and was subject to open tender, with responding contractors required to submit a Buy Local Plan with their respective proposals. The contract was awarded to Victorian based specialists, Interflow.

Four major contracts valued at \$5 million or over were awarded during 2015/16.

Contract/Works Package	Procurement Method	Buy Local Policy Applied	Successful Tenderer	State
Quick Works Package South, Western and Melba Lines	Open Tender	Yes	VEC Civil Engineering Pty Ltd	Tasmania
Track Upgrade Works Melba and Western Line	Open Tender	Yes	VEC Civil Engineering Pty Ltd	Tasmania
Supply of new rail and steel sleepers	Selective Tender	Yes	OneSteel Manufacturing	South Australia
Removal of rail defects	Open Tender	Yes	NuGroup	Victoria

## Consultants

The guideline defines a Consultant as a particular type of contractor who is engaged to provide recommendations or specialist or professional advice to an entity. A Contractor is defined as an individual or organisation engaged under a contract (other than as an employee) to provide goods and or services to an entity. The following consultancies were valued at more than \$50,000 (excluding GST):

Name of consultant	Location	Description	Period of engagement	Amount
Pitt & Sherry	TAS	Engineering Advice	July 15 - June 16	238,729
IPM Safety	TAS	Safety Training Program and specialist SHE services and advice	Dec 15 - June 17*	228,506
GHD	TAS	Engineering Advice	Aug 15 - June 16	161,945
BD James Consulting	NSW	Industrial Relations and HR Services	July 15 - June 16	121,972
Alexandrides Engineering	SA	Engineering & Project Management Services	July 15 - June 16	88,540
Jacobs Group	TAS	Environmental Management Plan Services	July 15 - Mar 16	66,852
Big Fish Executive	TAS	Executive Recruitment Services	July 15 - Dec 15	62,041
Timmins Ray	TAS	Professional Services	Sept 15 - June 16	53,460
Excellent Outcomes	TAS	Business Improvement Program Services and Leadership Development services	Sept 15 - June 16	50,521
MOR Consulting	NSW	Project Management Services	July 15 - June 16	50,040
<b>Total</b>				<b>1,122,606</b>
There were 37 consultants engaged for \$50 000 or less totalling				<b>533,054</b>
<b>Total Payment to Consultants for 2015/16</b>				<b>1,655,660</b>

\* Includes payment for the two year SafetyCircle program to August 2017.

11 Techno Park Drive  
P O Box 335  
Kings Meadows Tasmania 7249  
T 1300 TASRAIL  
F 03 6335 2636  
www.tasrail.com.au

Hon. Rene Hidding MP  
Minister for Infrastructure  
Member, Tasmanian Railway Pty Limited  
Level 1 Franklin Square  
HOBART TAS 7000

Hon. Peter Gutwein MP  
Treasurer  
Member, Tasmanian Railway Pty Limited  
Level 9 Executive Buildings  
HOBART TAS 7000

Dear Shareholder Members

**TASRAIL ANNUAL REPORT 2015/16**

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

In accordance with Section 22 (1) (b) of the *Rail Company Act 2009* I hereby submit for your information and presentation to the Parliament, the Annual Report of Tasmanian Railway Pty Limited covering the period 1 July 2015 to 30 June 2016.

Signed in accordance with a resolution of Directors.

Yours sincerely



**Bob Annells PSM**  
Chairman

15 October 2016

# Financial Report

30 June 2016

Directors' Report	51
Auditor's Independence Declaration	55
Statement of Profit or Loss and Other Comprehensive Income	56
Statement of Financial Position	57
Statement of Changes in Equity	58
Statement of Cash Flows	59
Notes to the Financial Statements	60
Directors' Declaration	88
Independent Auditor's Report	89

# Directors' Report

The Directors present their report together with the financial report of Tasmanian Railway Pty Ltd ("the Company") for the financial year ended 30 June 2016 and the Independent Auditor's Report thereon.

## 1. Directors

---

The Directors of the Company for the year ended 30 June 2016 are:

<i><b>Name and independence status</b></i>	<i><b>Special responsibilities and other directorships</b></i>
<b>Mr Robert Annells PSM</b> Independent Non-Executive Director, Chairman Appointed 23 November 2009 Re-Appointed 1 December 2015	Chairman, Governance and Remuneration Committee Chairman, Melbourne Convention Centre & Exhibition Trust Chairman, Forestry Tasmania (until 1 February 2016)
<b>Mr Robert Neil</b> Independent Non-Executive Director, Deputy Chairman Appointed 4 November 2009 Re-Appointed 1 December 2015	Chairman, Strategy and Risk Management Committee Member, Finance, Audit and Compliance Committee Member, Safety and Environment Committee (until 1 October 2015) Member, Governance and Remuneration Committee Director, Neil Consulting Pty Ltd
<b>Mr Roger Gill</b> Independent Non-Executive Director Resigned 2 September 2015	Member, Strategy and Risk Management Committee Member, Governance and Remuneration Committee Director, Pacific Hydro Pty Ltd Director, Hydro Focus Pty Ltd Director, Tasmanian Irrigation Pty Ltd
<b>Mrs Sarah Merridew</b> Independent Non-Executive Director Appointed 17 December 2009 Re-Appointed 1 December 2015	Chairman, Finance, Audit and Compliance Committee Member, Safety and Environment Committee Member, Governance and Remuneration Committee Director, MyState Limited
<b>Mr David George</b> Independent Non-Executive Director Appointed 26 May 2011 Re-Appointed 1 December 2015	Chairman, Safety and Environment Committee Member, Governance and Remuneration Committee Director, Rail Industry Safety and Standards Board (RISSB) Director, Queensland Rail Ltd (until 30 September 2015) Member, Queensland Rail Board (until 30 September 2015)
<b>Mrs Samantha Hogg</b> Independent Non-Executive Director Appointed 10 August 2015	Member, Strategy and Risk Management Committee Member, Finance, Audit and Compliance Committee Member, Governance and Remuneration Committee Director, Hydro Tasmania Director, MaxiTRANS

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 2016 are:

<i>Director</i>	<i>Meetings of committees</i>									
	<i>Board</i>		<i>Audit</i>		<i>Strategy</i>		<i>Governance</i>		<i>Safety</i>	
	<i>Attended</i>	<i>Held</i>	<i>Attended</i>	<i>Held</i>	<i>Attended</i>	<i>Held</i>	<i>Attended</i>	<i>Held</i>	<i>Attended</i>	<i>Held</i>
Robert Annells PSM (Chair)	9	9	-	-	-	-	3	3	-	-
Robert Neil (Deputy Chair)	9	9	5	5	3	3	3	3	1	2
Roger Gill	2	2	-	-	1	1	1	1	-	-
Sarah Merridew	9	9	5	5	-	-	3	3	5	5
David George	8	9	-	-	-	-	3	3	5	5
Samantha Hogg	8	8	4	4	3	3	3	3	-	-

Board = Full meetings of Directors

Audit = Finance Audit and Compliance Committee

Strategy = Strategy and Risk Management Committee

Governance = Governance and Remuneration Committee

Safety = Safety and Environment Committee

Attended = Number of meetings attended

Held = Number of meetings held during the time the Director held office or was a member of the committee during the year

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

## Directors' Report (continued)

### 2. Principal activities

---

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

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

### 3. Operating and financial review

---

#### Operating segments

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

#### **Below Rail**

This segment relates to the management and operation of the Tasmanian Rail Network and related infrastructure, including all maintenance and capital programs. The railway is a narrow gauge railway built in the late 1800s and the current line still uses much of the original formation and alignment. The Tasmanian rail network consists of 611 kilometres of operational track and 234 kilometres of non-operational track.

#### **Above Rail**

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

#### Operating result

The net loss after tax before comprehensive income for the year ended 30 June 2016 was \$27,829,000 after grant income for capital works of \$9,260,000, an impairment loss of \$21,645,000 and depreciation of \$8,161,000 (2015: net loss after tax before comprehensive income \$33,531,000 after an impairment loss of \$15,427,000, depreciation of \$12,864,000 and asset revaluation of \$8,277,000). This has been calculated in accordance with Australian Accounting Standards (AASBs).

The impairment loss in the current year relates to capital expenditure on the Below Rail infrastructure funded by the Australian and Tasmanian Governments. The infrastructure assets constructed are impaired as they do not generate sufficient revenue to sustain the Below Rail segment of the Company without recurrent Tasmanian Government contributions. Under accounting standards and direction from the Tasmanian Treasurer, contributions to fund capital expenditure on infrastructure assets are recognised in the following manner:

- Australian Government contributions to fund infrastructure assets are recognised directly as equity, not as revenue and therefore do not offset the impairment loss.
- Tasmanian Government contributions are treated as revenue upon completion of the underlying works which partially offsets the impairment loss. This treatment of contributions to fund the purchase or construction of assets differs from prior years where all capital expenditure contributions from the Tasmanian Government were recognised directly to equity.

On 6 June 2016 a severe flood event resulted in the significant inundation of several areas of track infrastructure throughout the State of Tasmania. Rail services were suspended whilst water levels subsided, assessment of damage was completed and remediation works commenced. A major bridge at Kimberley in the north-west and other minor bridges throughout Tasmania sustained substantial damage and multiple areas were affected by washaways of formation and ballast. Whilst repair works were underway an alternative freight solution was established utilising a combination of rail and road transport to facilitate continuity of service to customers. In the period to 30 June 2016 the loss of revenue, costs incurred on remediation of track and bridge infrastructure and the additional costs of operating the Company increased the net loss by \$4,007,000. Further work on repairs continued after 30 June with the Kimberley Bridge re-opening on 21 July 2016. This allowed for the cessation of alternative freight operations and restoration of all normal rail services.

Segment results for the year were made up of the following, Below Rail net loss before income tax of \$21,798,000 (2015: net loss of \$18,619,000) after impairment and amortisation of \$24,853,000 (2015: \$17,273,000 for impairment and depreciation) and Above Rail net loss before income tax of \$5,882,000 (2015: net loss of \$18,010,000) after depreciation and amortisation of \$4,953,000 (2015: \$19,295,000 for depreciation, amortisation and revaluation decrement). The Tasmanian Government provides recurrent operating grant funding for the business.

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

## 4. Environmental Regulations

---

The Company's operations are subject to significant environmental regulations under both Commonwealth and State legislation. The primary legislation is the *Environmental Management and Pollution Control Act 1994 (Tas)*. No breaches of the above-mentioned legislation were notified during the financial year.

Under the terms of the Lease from the Minister for Infrastructure for the Rail Corridor and associated infrastructure, the Company is responsible for remediation of any environmental obligations that may become apparent as a result of the Company's operations or past operations of the network. There were no new environmental liabilities identified at balance date that would have a material effect on the Company's Financial Report at 30 June 2016. If significant environmental liabilities are identified in the future, relating to the period prior to the commencement of the Company, the Company would require financial support from the Tasmanian Government to fund the remediation.

## 5. Dividends

---

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

## 6. Events subsequent to reporting date

---

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

## 7. Likely developments

---

The Company is continuing to invest and upgrade critical rail infrastructure to ensure a sustainable rail service. The Tasmanian and Australian Governments have committed to provide a program of \$119,600,000 over the four years to 30 June 2019 to fund these capital works.

## 8. Directors' interests

---

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

## 9. Indemnification and insurance of officers

---

### Indemnification

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

### Insurance Premiums

Since 1 July 2015, the Company has paid insurance premiums in respect of insurance contracts for Directors' and officers' liability and legal expenses, for current Directors and officers, including senior executives of the Company.

The insurance premiums relate to:

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

## 10. Auditor's Independence Declaration

---

The Auditor's Independence Declaration forms part of the Directors' report for the financial year ended 30 June 2016.

## 11. Rounding off

---

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



Mr Robert Annells PSM  
Chairman

Dated at Launceston this 1st day of August 2016.



1 August 2016

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

Dear Board Members

### **Auditor's Independence Declaration**

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

As the auditor of the financial report of Tasmanian Railway Pty Ltd for the financial year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit
- (b) any applicable code of professional conduct in relation to the audit.

In accordance with the *Corporations Act 2001* a copy of this declaration must be included in the Directors' report.

Yours sincerely



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

Tasmanian Railway Pty Ltd  
Statement of Profit or Loss and Other Comprehensive Income  
For the year ended 30 June 2016

	Note	2016 (\$'000)	2015 (\$'000)
<b>Continuing operations</b>			
Revenue from freight services		30,456	31,721
Grant income for operating activities	4	11,992	16,834
Grant income for capital works	4	9,260	-
Other income	4	1,036	1,966
Finance income	7	202	111
		52,946	50,632
Employee benefits expense		(27,048)	(27,734)
Maintenance and consumables expense		(9,769)	(9,391)
Fuel expense		(2,852)	(3,862)
Property and lease expense		(2,751)	(3,025)
Administration expense		(3,312)	(3,272)
Finance expense	7	(68)	(404)
Depreciation & amortisation expense	6	(8,161)	(12,864)
Impairment expense	6	(21,645)	(15,427)
Asset revaluation decrement	16	-	(8,277)
Other expenses		(5,020)	(3,005)
<b>Loss from continuing operations</b>		<b>(27,680)</b>	<b>(36,629)</b>
Taxation equivalent benefit (expense)	8	(149)	3,098
<b>Loss for the year after tax before comprehensive income</b>		<b>(27,829)</b>	<b>(33,531)</b>
<b>Other Comprehensive Income</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Asset revaluation increment	16	-	9,835
Tax on item that will not be reclassified to profit or loss	8	-	(2,951)
<i>Total items that will not be reclassified to profit or loss</i>		-	6,884
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Cash flow hedge reserve	22	(498)	490
Tax on items that may be reclassified subsequently to profit or loss	8	149	(147)
<i>Total items that may be reclassified subsequently to profit or loss</i>		(349)	343
<b>Total Comprehensive Loss for the year</b>		<b>(28,178)</b>	<b>(26,304)</b>

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

Tasmanian Railway Pty Ltd  
Statement of Financial Position  
As at 30 June 2016

	Note	2016 (\$'000)	2015 (\$'000)
<b>Assets</b>			
Cash and cash equivalents	9	21,647	1,087
Trade and other receivables	10	3,660	5,868
Inventories	11	14,748	9,492
Assets classified as held for sale	12	512	512
Other assets	13	251	714
<b>Total Current Assets</b>		<b>40,818</b>	<b>17,673</b>
Other assets	13	-	35
Intangibles	15	6,132	-
Property, plant and equipment	16	113,924	116,902
<b>Total Non-current Assets</b>		<b>120,056</b>	<b>116,937</b>
<b>Total Assets</b>		<b>160,874</b>	<b>134,610</b>
<b>Liabilities</b>			
Trade and other payables	17	9,024	4,386
Deferred grant income	18	21,551	-
Employee benefits	19	4,639	4,146
Borrowings	20	-	4,000
<b>Total Current Liabilities</b>		<b>35,214</b>	<b>12,532</b>
Employee benefits	19	1,129	619
<b>Total Non-current Liabilities</b>		<b>1,129</b>	<b>619</b>
<b>Total Liabilities</b>		<b>36,343</b>	<b>13,151</b>
<b>Net Assets</b>		<b>124,531</b>	<b>121,459</b>
<b>Equity</b>			
Share capital	21	352,179	320,929
Reserves	22	7,059	7,408
Accumulated losses		(234,707)	(206,878)
<b>Total Equity</b>		<b>124,531</b>	<b>121,459</b>

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

Tasmanian Railway Pty Ltd  
Statement of Changes in Equity  
For the year ended 30 June 2016

	Note	Share Capital (\$'000)	Cash Flow Hedging Reserve (\$'000)	Asset Revaluation Reserve (\$'000)	Accumulated Losses (\$'000)	Total Equity (\$'000)
<b>At 1 July 2014</b>		<b>291,333</b>	<b>181</b>	<b>-</b>	<b>(173,347)</b>	<b>118,167</b>
Equity contributed	21	29,596	-	-	-	<b>29,596</b>
Total comprehensive loss for the year	22	-	343	6,884	(33,531)	<b>(26,304)</b>
<b>At 30 June 2015</b>		<b>320,929</b>	<b>524</b>	<b>6,884</b>	<b>(206,878)</b>	<b>121,459</b>

<b>At 1 July 2015</b>		<b>320,929</b>	<b>524</b>	<b>6,884</b>	<b>(206,878)</b>	<b>121,459</b>
Equity contributed	21	31,250	-	-	-	<b>31,250</b>
Total comprehensive loss for the year	22	-	(349)	-	(27,829)	<b>(28,178)</b>
<b>At 30 June 2016</b>		<b>352,179</b>	<b>175</b>	<b>6,884</b>	<b>(234,707)</b>	<b>124,531</b>

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

Tasmanian Railway Pty Ltd  
Statement of Cash Flows  
As at 30 June 2016

	Note	2016 (\$'000)	2015 (\$'000)
<b>Cash flows from operating activities</b>			
Receipts from customers		36,744	35,446
Grants received for operating activities		11,992	16,834
Payments to suppliers and employees		(56,174)	(54,782)
Cash generated from operations		(7,438)	(2,502)
Interest received		202	111
Interest paid		(68)	(404)
<b>Net cash from/(used in) operating activities</b>	26	(7,304)	(2,795)
<b>Cash flows from investing activities</b>			
Grants received for capital works		30,811	-
Purchase of property, plant and equipment		(30,198)	(39,379)
Proceeds from sale of plant and equipment		1	260
<b>Net cash from/(used in) investing activities</b>		614	(39,119)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		-	24,000
Repayment of borrowings		(4,000)	(20,000)
Equity contributions from the Tasmanian Government	21	20,000	20,000
Equity contributions from the Australian Government	21	11,250	9,596
<b>Net cash provided by financing activities</b>		27,250	33,596
<b>Net increase/(decrease) in cash and cash equivalents</b>		20,560	(8,318)
<b>Cash and cash equivalents at start of period</b>		1,087	9,405
<b>Cash and cash equivalents at 30 June</b>	9	21,647	1,087

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

# Index to the notes to the financial statements

1. Corporate Information	61
2. Summary of significant accounting policies	61
3. Critical accounting judgements and key sources of estimation uncertainty	67
4. Other income	68
5. Auditors' remuneration	68
6. Depreciation, amortisation and impairment	68
7. Finance income and expense	69
8. Taxation equivalent benefit	69
9. Cash and cash equivalents	70
10. Trade and other receivables	70
11. Inventories	70
12. Other assets	70
13. Assets classified as held for sale	70
14. Deferred tax assets and liabilities	71
15. Intangibles	71
16. Property Plant and Equipment	72
17. Trade and other payables	74
18. Deferred Grant Income	74
19. Employee benefits	75
20. Borrowings	75
21. Share capital	75
22. Reserves	75
23. Operating segments	76
24. Dividends	77
25. Commitments for expenditure	78
26. Reconciliation of cash flows from operating activities	78
27. Financial instruments	79
28. Contingencies	83
29. Subsequent events	83
30. Related Party Transactions	83
31. Board Approved Overseas Travel	87

# Notes to the financial statements

## For the year ending 30 June 2016

### 1. Corporate Information

---

Tasmanian Railway Pty Ltd (the "Company") was incorporated on 4 November 2009 and is a company domiciled in Australia. The address of the Company's registered office is 11 Techno Park Drive, Kings Meadows, Tasmania 7249.

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

### 2. Summary of significant accounting policies

---

#### Statement of compliance

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

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

The financial report was authorised for issue by the Directors on 1 August 2016.

#### Basis of preparation

The financial report is prepared on the historical costs basis, except for certain non-current assets (disclosed at Note 16), available for sale assets and derivative assets from cash flow hedges (disclosed at Note 27) that are measured at revalued amounts or fair values, as explained in the accounting policies below.

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

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

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

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

#### Significant accounting policies

##### (a) Revenues

###### *Provision of revenue from freight services*

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

###### *Interest income*

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

###### *Sale of Non-Current Assets*

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

###### *Government grants*

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

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

# Notes to the financial statements

## For the year ending 30 June 2016

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

### (b) Income Tax

The Company is subject to the National Tax Equivalent Regime under instructions from the Treasurer of the State of Tasmania, which is broadly based on the provisions of the Income Tax Assessment Act 1997.

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

#### Current tax

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

#### Deferred tax

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

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

### (c) Property, Plant and Equipment

#### i) Recognition and measurement

Rollingstock assets are stated at fair value on the basis of an independent market valuation by external valuation experts. Allowance has been made for the estimated costs of selling and transporting these assets to potential markets. Revaluations will be performed with sufficient regularity, not exceeding a period between revaluations of 5 years, so that the carrying amounts do not differ materially from those that would be determined using fair values at the end of the reporting period.

Any revaluation increase is recognised in other comprehensive income and accumulated within equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in the profit or loss, in which case the increase is credited to profit and loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on revaluation is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

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

Other items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see accounting policy 2(i)). Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self constructed assets includes the cost of materials, direct labour and, where relevant, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Assets under the amount of \$5,000 are recognised in the income statement at the point of acquisition.

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

#### ii) Depreciation

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

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

The estimated useful lives for each class of asset, for the current and prior years are as follows:

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

These estimated useful lives are reviewed at the end of each reporting period.

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



# Notes to the financial statements

## For the year ending 30 June 2016

### (d) Intangibles

Computer software has a finite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost of computer software over its estimated useful life of 4 years.

### (e) 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.

### (f) 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.

### (g) Inventories

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

### (h) 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.

### (i) Impairment

#### i) Financial assets (including receivables)

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

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

#### ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories (see accounting policy 2(g)), capital work in progress and deferred tax assets (see accounting policy 2(b)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

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

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

# Notes to the financial statements

## For the year ending 30 June 2016

### (j) 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.

### (k) Segment reporting

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

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

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

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

### (l) Financial instruments

#### i) Non-derivative financial assets

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

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

### Loans and receivables

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

### Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. The credit risk on these balances is limited because the counterparties are banks with high credit ratings. As such management does not expect any counterparty to fail to meet its obligations.

#### ii) Non-derivative financial liabilities

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

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

#### iii) Derivative financial instruments

The Company enters into derivative financial instruments to manage its exposure to capital and operational expenditure and foreign exchange rate risk. Further details of derivative financial instruments are disclosed in Note 27 to the financial statements.

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

# Notes to the financial statements

## For the year ending 30 June 2016

### ***Hedge accounting***

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

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

Notes 27 sets out details of the fair values of the derivative instruments used for hedging purposes.

### ***Fair value hedge***

The Company does not have any fair value hedges.

### ***Cash flow hedge***

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

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

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

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

## Notes to the financial statements

### For the year ending 30 June 2016

#### (m) New accounting standards and interpretations not adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the Company in the period of initial application. They are available for early adoption at 30 June 2016, but have not been applied in preparing these financial statements. The Company intends to adopt these standards in the first applicable financial reporting period. The extent of impact, if any, that the initial implementation of the Standards will have on the financial statements is set out below.

AASB amendment	Nature of change to Accounting Policy	Reporting periods commencing on or after	Application date for the Company
AASB 2015-2 <i>Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101</i>	The amendments do not require any significant change to current practice, but should facilitate improved reporting, including an emphasis on only including material disclosures, clarify on the aggregation and disaggregation of line items, the presentation and subtotals, ordering of notes and the identification of significant accounting policies.	1 January 2016	30 June 2017
AASB 9 <i>Financial Instruments</i>	The standard affects financial assets and financial liabilities.	1 January 2017	30 June 2018
AASB 2010-7 <i>Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2012-6 Amendments to Australian Accounting Standards</i>	The amendments arising from this standard are not expected to change the reported financial position or performance of the Company. Any changes to disclosure requirements are under review.		
AASB 15 <i>Revenue from Contracts with Customers</i>	The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfer to a customer – so the notion of control replaces the existing notion of risks and rewards.  Management is currently assessing the impact of the new rules but at this stage does not expect any material impact on the Company's financial statements.	1 January 2017	30 June 2018

# Notes to the financial statements

## For the year ending 30 June 2016

### (n) Adoption of new and amended accounting standards

The Company has not adopted any new standards or amendments for the first time for the annual reporting period commencing 1 July 2015.

### (o) 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.

### (p) Capital management

The capital base of the Company has been contributed by the Australian and Tasmanian Governments since commencement. The Company will continue to depend upon these contributions to maintain creditor and market confidence and to sustain future operation of the business. Capital consists of share capital and retained earnings of the Company. There were no changes in the Company's approach to capital management during the year.

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

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

This note provides an overview of the areas that involved a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be incorrect.

Information about each of these areas is set out below:

- Useful lives of non-current assets are disclosed at Note 2 and depreciation expense at Note 6. As described in Note 2(c), the Company reviews the estimated useful life of property, plant and equipment during each reporting period.
- The Company has impaired all below rail infrastructure assets. The method and reasons for impairment are further discussed at Notes 2 and 16.
- The Company's rollingstock assets are measured at fair value for financial reporting purposes.

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

Note 16 reports the carrying amount of the Company's rollingstock and note 2(c) details the valuation policy. Significant judgements made in applying these policies include:

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

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

## Notes to the financial statements

### For the year ending 30 June 2016

#### 4. Other income

	2016 (\$'000)	2015 (\$'000)
Grant income for operating activities		
Tasmanian Government	11,992	16,834
Grant income for capital works		
Tasmanian Government	9,215	-
Australian Government	45	-
	<b>9,260</b>	<b>-</b>
Sundry	369	1,538
Property Rental	667	755
Net gain (loss) on sale of property, plant and equipment	-	(327)
	<b>1,036</b>	<b>1,966</b>

#### 5. Auditors' remuneration

	2016 (\$)	2015 (\$)
<b>Audit Services</b>		
Auditors of the Company:		
Tasmanian Audit Office		
Audit the financial report	49,720	49,550
	<b>49,720</b>	<b>49,550</b>

#### 6. Depreciation, amortisation and impairment

	2016 (\$'000)	2015 (\$'000)
Depreciation, amortisation and impairment expense for the year consists of:		
Amortisation of intangibles	1,597	-
Amortisation of leasehold improvements (buildings)	909	1,421
Depreciation of infrastructure	-	600
Depreciation of plant, equipment & motor vehicles	1,839	989
Depreciation of rollingstock (refurbished)	170	7,517
Depreciation of rollingstock (new)	3,646	2,337
	<b>8,161</b>	<b>12,864</b>
Impairment of infrastructure	21,645	15,427
	<b>29,806</b>	<b>28,291</b>

Notes to the financial statements  
For the year ending 30 June 2016

**7. Finance income and expense**

	2016 (\$'000)	2015 (\$'000)
Interest income	202	111
Finance income	<b>202</b>	<b>111</b>
Interest expense	68	404
Finance expense	<b>68</b>	<b>404</b>

**8. Taxation equivalent benefit**

	2016 (\$'000)	2015 (\$'000)
<b>Income tax expense attributable to continuing operations</b>		
Current year expense / (benefit)	-	-
Adjustments for prior years	-	-
Deferred tax expense:		
Origination and reversal of temporary differences:		
Increase/(Decrease) in deferred tax liability	(271)	142
Decrease/(Increase) in deferred tax asset	(8,171)	(8,022)
Adjustments for prior years	(49,070)	-
Non-recognition of temporary differences and tax equivalent losses	57,363	10,978
<b>Income tax (expense)/benefit attributable to profit/(loss) before other comprehensive income</b>	<b>(149)</b>	<b>3,098</b>
<b>Tax recognised in other comprehensive income</b>		
Tax (expense) benefit relating to cash flow hedge reserve	149	(147)
Tax (expense) benefit relating to asset revaluation reserve	-	(2,951)
<b>Total taxation equivalent expense/benefit</b>	<b>-</b>	<b>-</b>
<b>Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income rate</b>		
Loss before tax	(27,680)	(36,629)
Income tax using the domestic corporation tax rate of 30%	(8,304)	(10,989)
Increase in income tax expense due to:		
Non-deductible expenses	11	11
	<b>(8,293)</b>	<b>(10,978)</b>
Add prior year under/(over) provision	(49,070)	-
Non-recognition of temporary differences and tax equivalent losses	57,363	10,978
<b>Total taxation equivalent expense/benefit</b>	<b>-</b>	<b>-</b>

## Notes to the financial statements

### For the year ending 30 June 2016

#### 9. Cash and cash equivalents

	2016 (\$'000)	2015 (\$'000)
Bank balances	6,505	1,086
Call deposits	15,141	-
Petty cash on hand	1	1
Cash and cash equivalents in the statement of cash flows	<b>21,647</b>	<b>1,087</b>

#### 10. Trade and other receivables

Trade receivables	2,864	5,238
Sundry receivables	90	161
Prepayments	358	382
GST receivable	348	87
	<b>3,660</b>	<b>5,868</b>

The average credit period on freight services is 33.7 days (2015: 53.9 days). No interest is charged on trade receivables. Trade receivables over 60 days will be provided for based on estimated irrecoverable amounts from the provision of services, determined by reference to past default experience. Before accepting any new customers, the company conducts credit and reference checks to assess the potential customer's credit quality and defined credit limits by customer.

#### 11. Inventories

	2016 (\$'000)	2015 (\$'000)
Consumables and spare parts - At cost		
Rollingstock, plant and equipment	4,366	3,770
Infrastructure	10,096	5,422
Fuel stock - At cost	286	300
	<b>14,748</b>	<b>9,492</b>

The cost of inventory expensed in the year was \$10,272,000 (2015: \$7,844,000).

#### 12. Other assets

	2016 (\$'000)	2015 (\$'000)
<b>Current</b>		
Derivative asset - cash flow hedges	251	714
<b>Non-current</b>		
Derivative asset - cash flow hedges	-	35

#### 13. Assets classified as held for sale

Rollingstock held for sale	512	512
----------------------------	-----	-----



Notes to the financial statements  
For the year ending 30 June 2016

**14. Deferred tax assets and liabilities**

	<b>2016</b> <b>(\$'000)</b>	<b>2015</b> <b>(\$'000)</b>
<b>Recognised deferred tax assets and liabilities</b>		
Deferred tax assets and liabilities are attributable to the following:		
<b>Deferred tax assets</b>		
Employee benefits	1,843	1,539
Trade and other payables	90	138
Property, plant and equipment	94,068	48,824
Deferred grant income	6,465	-
Trade and other receivables	107	-
Carried forward tax losses - Revenue Losses	15,463	10,187
Carried forward tax losses - Capital Losses	518	518
Tax assets	<b>118,554</b>	<b>61,206</b>
De-recognised due to not being probable of recovery	(118,468)	(60,956)
Set-off against deferred tax liability	(86)	(250)
Net deferred tax asset	-	-
<b>Deferred tax liabilities</b>		
Inventory	86	90
Trade and other receivables	-	160
Tax liabilities	<b>86</b>	<b>250</b>
Set-off of tax	(86)	(250)
	-	-

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

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

**15. Intangibles**

	<b>2016</b> <b>(\$'000)</b>	<b>2015</b> <b>(\$'000)</b>
Software - At Cost	7,729	-
Accumulated amortisation	(1,597)	-
	<b>6,132</b>	-
Carrying amount at the beginning of the period	-	-
Additions	7,729	-
Amortisation	(1,597)	-
Carrying amount at the end of the period	6,132	-

The balance of Intangibles is predominantly Train Control software.

Notes to the financial statements  
For the year ending 30 June 2016

**16. Property Plant and Equipment**

	<b>2016</b> <b>(\$'000)</b>	<b>2015</b> <b>(\$'000)</b>
Leasehold Improvements (Buildings) - At Cost	10,003	9,241
Accumulated depreciation	(4,733)	(3,824)
	<b>5,270</b>	<b>5,417</b>
Infrastructure - At Cost	190,372	168,727
Accumulated depreciation	(4,261)	(4,261)
Accumulated impairment losses	(186,111)	(164,466)
	-	-
Plant, Equipment & Motor Vehicles - At Cost	17,278	13,408
Accumulated depreciation	(5,410)	(3,594)
	<b>11,868</b>	<b>9,814</b>
Rollingstock (Refurbished) - At Fair Value	2,112	1,794
Accumulated depreciation	(170)	-
	<b>1,942</b>	<b>1,794</b>
Rollingstock (New) - At Fair Value	97,709	88,762
Accumulated depreciation	(3,646)	-
	<b>94,063</b>	<b>88,762</b>
Capital Projects - Work in Progress	781	11,115
Total property, plant and equipment net book value	<b>113,924</b>	<b>116,902</b>
<b>Reconciliations</b>		
Reconciliations of the carrying amounts for each class of plant and equipment are set out below:		
<b>Leasehold Improvements (Buildings) - At Cost</b>		
Carrying amount at the beginning of the period	5,417	8,194
Additions	762	-
Reclassification of assets to plant and equipment	-	(1,356)
Depreciation	(909)	(1,421)
Carrying amount at the end of the period	<b>5,270</b>	<b>5,417</b>

Notes to the financial statements  
For the year ending 30 June 2016

**16. Property Plant and Equipment (continued)**

	2016 (\$'000)	2015 (\$'000)
<b>Infrastructure - At Cost</b>		
Carrying amount at the beginning of the period	-	6,263
Additions	21,645	9,764
Depreciation	-	(600)
Impairment Loss	(21,645)	(15,427)
Carrying amount at the end of the period	-	-
<b>Plant, Equipment &amp; Motor Vehicles - At Cost</b>		
Carrying amount at the beginning of the period	9,814	4,884
Additions	3,893	4,563
Reclassification of assets from leasehold improvements	-	1,356
Depreciation	(1,839)	(989)
Carrying amount at the end of the period	11,868	9,814
<b>Rollingstock (Refurbished) - At Fair Value</b>		
Carrying amount at the beginning of the period	1,794	12,591
Additions	318	1,255
Disposals	-	(35)
Depreciation	(170)	(7,517)
Asset revaluation recognised in profit and loss	-	(4,518)
Asset revaluation recognised in other comprehensive income	-	18
Carrying amount at the end of the period	1,942	1,794
<b>Rollingstock (New) - At Fair Value</b>		
Carrying amount at the beginning of the period	88,762	-
Additions	8,947	85,599
Disposals	-	(558)
Depreciation	(3,646)	(2,337)
Asset revaluation recognised in profit and loss	-	(3,759)
Asset revaluation recognised in other comprehensive income	-	9,817
Carrying amount at the end of the period	94,063	88,762
<b>Capital Projects - Work in Progress</b>		
Carrying amount at the beginning of the period	11,115	75,312
Additions	32,962	38,012
Transfers out	(43,296)	(102,209)
Carrying amount at the end of the period	781	11,115
Total Property, Plant and Equipment net book value	<b>113,924</b>	<b>116,902</b>

## Notes to the financial statements

### For the year ending 30 June 2016

#### 16. Property Plant and Equipment (continued)

An independent valuation of rollingstock assets was undertaken by Ernst & Young as at 30 June 2015. The valuation was undertaken in United States dollars and translated into Australian Dollars at that date. The values were determined on the basis of the knowledge and experience of the valuer of the market value of like assets. The Directors have completed their assessment of fair value at the end of the current reporting period, taking into account an update from Ernst & Young on indicative values as at 30 June 2016 for these rollingstock assets. The Directors have determined that rollingstock assets are stated within a reasonable range of fair value estimates.

The Company considered certain infrastructure assets relating to the Below Rail segment of the Company to be impaired. Impairment losses of \$21,645,000 (2015: \$15,427,000) were recognised. These impairment losses are recognised in accordance with the accounting policy detailed in Note 2(i).

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

##### Fair value measurement

The table below presents the Company's assets measured and recognised at fair value.

	2016 (\$'000)	2015 (\$'000)
<b>Level 2</b>		
Rollingstock (Refurbished)	1,942	1,794
Rollingstock (New)	94,063	88,762
	<b>96,005</b>	<b>90,556</b>

#### 17. Trade and other payables

	2016 (\$'000)	2015 (\$'000)
Trade payables	1,048	2,169
Other trade payables	954	761
Accrued expenses	7,022	1,456
	<b>9,024</b>	<b>4,386</b>

The average credit period on purchase of goods and services (excluding capital works) is 22.8 days (2015: 17.1 days). The Company has financial risk management policies in place to ensure all payables are paid within the credit timeframe. The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 27.

#### 18. Deferred Grant Income

	2016 (\$'000)	2015 (\$'000)
Tasmanian Government capital works funding	20,685	-
Australian Government capital works funding	866	-
	<b>21,551</b>	<b>-</b>

Notes to the financial statements  
For the year ending 30 June 2016

## 19. Employee benefits

	2016 (\$'000)	2015 (\$'000)
<b>Current</b>		
Liability for annual leave	2,894	2,574
Liability for long-service leave	1,745	1,572
	<b>4,639</b>	<b>4,146</b>
<b>Non Current</b>		
Liability for long-service leave	1,129	619

## 20. Borrowings

<b>Current</b>		
Loan from Tascorp	-	4,000

## 21. Share capital

Opening Balance - fully paid ordinary shares	320,929	291,333
Equity contributed during the year	(i) 31,250	29,596
Closing Balance - fully paid ordinary shares	<b>352,179</b>	<b>320,929</b>

(i) This is funding provided to the Company which has been formally designated as equity in accordance with the accounting policy in Note 2(a) and comprises of Tasmanian State Government funds for capital works programmes and operational expenditure of \$20,000,000 (2015: \$20,000,000) and Australian Government funds for capital works programmes of \$11,250,000 (2015: \$9,596,000).

## 22. Reserves

	2016 (\$'000)	2015 (\$'000)
<i>Asset revaluation reserve</i>		
Opening Balance	6,884	-
Asset revaluation increment	-	9,835
Tax effect arising on asset revaluation	-	(2,951)
Closing Balance	6,884	6,884
<i>Cash flow hedge reserve</i>		
Opening Balance	524	181
Effective portion of changes in fair value of cash flow hedge	(498)	490
Tax effect arising on market valuation	149	(147)
Closing Balance	175	524
<b>Total Reserves</b>	<b>7,059</b>	<b>7,408</b>

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

## Notes to the financial statements

### For the year ending 30 June 2016

#### 23. Operating segments

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

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

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

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

<i>Year ended 30 June 2016</i> <b>Segment</b>	<b>Above Rail (\$'000)</b>	<b>Below Rail (\$'000)</b>	<b>Total (\$'000)</b>
External revenues	31,515	21,229	52,744
Inter-segment revenue	-	3,230	3,230
Interest revenue	75	127	202
Interest expense	(54)	(14)	(68)
Impairment	-	(21,645)	(21,645)
Depreciation and amortisation	(4,953)	(3,208)	(8,161)
Reportable segment profit / (loss) before income tax	(5,882)	(21,798)	(27,680)
Reportable segment assets	113,262	25,965	139,227
Add: cash and cash equivalents not allocable to segments			21,647
Total assets			160,874
Capital expenditure	9,867	23,095	32,962

Notes to the financial statements  
For the year ending 30 June 2016

**23. Operating segments (continued)**

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

**Major customers**

Revenue from three parties represent approximately 59.5 % (2015: 58.4%) of freight services and other income as follows:

	<b>2016 (\$'000)</b>	<b>2015 (\$'000)</b>
- Party 1 (freight services - Above Rail)	7,314	7,818
- Party 2 (freight services - Above Rail)	6,462	7,057
- Party 3 (freight services - Above Rail)	4,586	5,160

**Economic Dependency**

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

**24. Dividends**

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

Notes to the financial statements  
For the year ending 30 June 2016

## 25. Commitments for expenditure

	2016 (\$'000)	2015 (\$'000)
<b>Capital expenditure commitments</b>		
Above Rail	2,210	3,491
Below Rail	16,278	3,184
	<b>18,488</b>	<b>6,675</b>
<b>Operating Leases</b>		
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	1,386	1,401
Between one and five years	2,848	1,668
	<b>4,234</b>	<b>3,069</b>

The Company's operating leases relate to motor vehicles, office accommodation and sundry items of plant and equipment. The leases typically run for a period of 5 years with operating lease payments based on the terms of the underlying lease agreements.

During the year, an amount of \$2,039,000 (2015: \$1,235,000) was recognised as an expense in respect of operating leases.

## 26. Reconciliation of cash flows from operating activities

	2016 (\$'000)	2015 (\$'000)
<b>Cash flows from operating activities</b>		
Loss for the period	(27,829)	(33,531)
<i>Adjustments for:</i>		
Asset revaluation	-	8,277
Depreciation & Amortisation	8,161	12,864
Impairment	21,645	15,427
Grant income for capital works	(9,260)	-
Tax expense/(benefit) relating to cash flow hedge reserve	149	(147)
Tax expense/(benefit) relating to asset revaluation increment	-	(2,951)
Gain (loss) on disposal of property, plant and equipment	-	(327)
<b>Operating profit before changes in working capital and provisions</b>	<b>(7,134)</b>	<b>(388)</b>
- Adjustment for movement in payables related to investing activities	(2,762)	3,057
- Increase/(Decrease) in payables	4,637	(3,175)
- Increase/(Decrease) in employee benefits	1,003	(256)
- (Increase)/Decrease in receivables	2,208	(1,666)
- (Increase)/Decrease in inventories	(5,256)	(367)
<b>Net Cash flows from operating activities</b>	<b>(7,304)</b>	<b>(2,795)</b>



# Notes to the financial statements

## For the year ending 30 June 2016

### 27. Financial instruments

#### Overview

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

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

#### Credit risk

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

The Company's policy only allows investment and cash holdings to be deposited with major Australian financial institutions.

The Company's maximum exposure at the reporting date was:

	2016 (\$'000)	2015 (\$'000)
Cash and cash equivalents (Note 9)	21,647	1,087
Trade and other receivables (Note 10)	3,660	5,868
Derivative assets - cash flow hedges (Note 13)	251	749
	<b>25,558</b>	<b>7,704</b>

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 services are made on a prepayment basis with approval of the Chief Executive Officer.

	2016 (\$'000)	2015 (\$'000)
The ageing of trade receivables at the reporting date was:		
Not past due	2,750	4,056
Past due 0-30 days	114	940
Past due 31-60 days	-	242
Past due more than 60 days	-	-
Total	<b>2,864</b>	<b>5,238</b>

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

# Notes to the financial statements

## For the year ending 30 June 2016

### 27. 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:

	2016 (\$'000)	2015 (\$'000)
<b>Non-derivative financial liabilities</b>		
Trade and other payables - payable in 6 months or less	9,024	4,386
Borrowings - payable in 12 months or less	-	4,000
	<b>9,024</b>	<b>8,386</b>

#### Market risk

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

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

#### Currency risk

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

#### Exposure to currency risk

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

	2016 USD (\$'000)	2015 USD (\$'000)
Trade payables	-	-
Forward exchange contracts payable (receivable)	(251)	(749)
Net exposure	<b>(251)</b>	<b>(749)</b>

The following significant exchange rates applied during the year:

	2016	
	Average	Reporting date spot rate
AUD : USD	0.7283	0.7451
AUD : EUR	0.6561	0.6708
	2015	
	Average	Reporting date spot rate
AUD : USD	0.8382	0.7680

# Notes to the financial statements

## For the year ending 30 June 2016

### 27. Financial instruments (continued)

#### *Sensitivity analysis*

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

	Strengthening - impact on profit or loss, and equity (\$'000)	Weakening - impact on profit or loss, and equity (\$'000)
<u>30 June 2016</u>		
USD (10% movement)	(23)	28
<u>30 June 2015</u>		
USD (10% movement)	(68)	83

#### *Interest rate risk*

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

A change in interest rates would have increased or decreased the Company's profit and loss by the following amounts.

There is no impact in the Company's equity.

	Balance (\$'000)	Interest rates increased by 100 basis points (\$'000)	Interest rates decreased by 100 basis points (\$'000)
<u>30 June 2016</u>			
<b>Financial assets:</b>			
Cash and cash equivalents	21,647	103	(103)
Trade and other receivables	3,660	-	-
<b>Financial liabilities:</b>			
Trade and other payables	9,024	-	-
Borrowings	-	-	-
<u>30 June 2015</u>			
<b>Financial assets:</b>			
Cash and cash equivalents	1,087	34	(34)
Trade and other receivables	5,868	-	-
<b>Financial liabilities:</b>			
Trade and other payables	4,386	-	-
Borrowings	4,000	(110)	110

## Notes to the financial statements

### For the year ending 30 June 2016

#### 27. Financial instruments (continued)

##### Undrawn financing facilities

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

	2016 (\$'000)	2015 (\$'000)
Corporate charge card facility	179	182
Borrowings	10,000	26,000
	<b>10,179</b>	<b>26,182</b>

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

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

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

	Level 1 (\$'000)	Level 2 (\$'000)	Level 3 (\$'000)	Total (\$'000)
<i>Year ended 30 June 2016</i>				
Derivative financial asset - cash flow hedges	-	251	-	251
<i>Year ended 30 June 2015</i>				
Derivative financial asset - cash flow hedges	-	749	-	749

There were no transfers between levels in the reporting period (2015 \$Nil).

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

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

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

# Notes to the financial statements

## For the year ending 30 June 2016

### 28. 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 new environmental liabilities identified at balance date that would have a material effect on the Company's Financial Report at 30 June 2016. If significant environmental liabilities are identified in the future, relating to the period prior to the commencement of the Company, the Company would require financial support from the Tasmanian Government to fund the remediation.

### 29. Subsequent events

---

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

### 30. Related Party Transactions

---

#### (a) Key Management Personnel

Remuneration levels for key management personnel are set in accordance with the Director and Executive Remuneration Guidelines, dated October 2015. Under these Guidelines, remuneration bands for Chief Executive Officers (CEOs) are determined by the Government Business Executive Remuneration Panel and reflect the principles outlined in the Guidelines and broadly align with State Service Heads of Agency. Positioning within the bands depends on the complexity and size of the business and the environment in which the business operates. Remuneration for other senior executives is set with reference to the CEO's salary.

#### *Non-Executive Directors*

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

The level of fees paid to Non-Executive Directors is administered by the Department of Premier and Cabinet.

Superannuation is paid at the appropriate rate as prescribed by superannuation guarantee legislation. No other leave, termination or retirement benefits are accrued or paid to Directors.

Directors are entitled to reimbursement of expenses incurred while attending to Board business. Non-Executive Directors' remuneration is reviewed periodically with increases subject to approval by the Treasurer and Portfolio Minister.

#### *Executive remuneration*

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

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

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

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

#### *Short term incentive payments*

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

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

## Notes to the financial statements For the year ending 30 June 2016

### 30. Related Party Transactions (continued)

#### Directors remuneration

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

Non-Executive Director	Directors' fees \$	Committee fees \$	Superannuation* \$	Other fees \$	Total 2016 \$
Mr R Annells PSM - Chairman	111,748	-	10,616	-	122,364
Mr D George	12,508	9,578	27,732	-	49,818
Mr R Gill (Resigned 2 September 2015)	6,366	1,698	766	-	8,830
Mrs S Hogg (Appointed 10 August 2015)	33,467	8,063	3,945	-	45,475
Mrs S Merridew	35,918	9,578	4,322	-	49,818
Mr R Neil	8,803	9,578	31,437	-	49,818

Non-Executive Director	Directors' fees \$	Committee fees \$	Superannuation* \$	Other fees \$	Total 2015 \$
Mr R Annells PSM - Chairman	109,970	-	10,172	-	120,142
Mr D George	35,382	9,390	4,141	-	48,913
Mr R Gill	35,382	9,390	4,141	-	48,913
Mrs S Merridew	35,382	9,390	4,141	-	48,913
Mr R Neil	11,105	9,390	28,418	-	48,913

\* Superannuation represents employer contributions including amounts salary sacrificed.

Notes to the financial statements  
For the year ending 30 June 2016

**30. Related Party Transactions (continued)**

**Executive remuneration**

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

Senior executive	Base salaries \$	Superannuation * \$	Termination benefits *** \$	Short term incentive payments *** \$	Vehicles **** \$	Other benefits ** \$	Total 2016 \$
Mr D White - Chief Executive Officer	292,222	29,948	-	23,025	29,976	22,374	397,545
Mr S Dietrich - Chief Financial Officer	229,910	24,919	-	32,400	12,844	40,592	340,665
Mr S Kerrison - Chief Operating Officer	209,753	21,973	-	21,544	13,747	41,488	308,505
Mr B Parton - General Manager Freight Services (commenced January 2016)	82,627	7,850	-	-	-	10,516	100,993
Mr G Pitt - General Manager Freight Services (resigned July 2015)	742	12,731	122,181	11,084	-	(51,791)	94,947
Mr J Drew - General Manager Asset Management	183,777	30,059	-	17,366	-	11,509	242,711

Notes to the financial statements  
For the year ending 30 June 2016

**30. Related Party Transactions (continued)**

Senior executive	Base salaries \$	Superannuation * \$	Termination benefits *** \$	Short term incentive payments *** \$	Vehicles ***** \$	Other benefits ** \$	Total 2015 \$
Mr D White - Chief Executive Officer	286,965	29,964	-	28,448	29,975	16,098	391,450
Mr S Dietrich - Chief Financial Officer	226,339	25,302	-	40,000	12,843	4,948	309,432
Mr S Kerrison - Chief Operating Officer	206,468	21,493	-	19,780	13,746	10,539	272,026
Mr G Pitt - General Manager Freight Services	171,071	26,740	-	18,208	15,000	4,852	235,871
Mr J Drew - General Manager Asset Management	195,177	24,879	-	17,808	-	13,077	250,941

\* Superannuation represents employer contributions including amounts salary sacrificed.

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

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

\*\*\*\* Termination benefits represent annual leave, long service leave and salary in lieu of notice paid on termination.

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

In accordance with Accounting Standard AASB 124 Related Party Disclosures, the Company notes that Short Term Employee Benefits were \$1,408,322 (2015 \$1,546,609), Other Long Term Employee Benefits being the movement in accrued annual and long service leave were \$74,688 (2015 \$49,514), Post Employment Benefits were \$206,298 (2015 \$179,391) and Termination Benefits were \$122,181 (2015 \$Nil).



## Notes to the financial statements For the year ending 30 June 2016

### 30. Related Party Transactions (continued)

#### (b) Transactions with Other Related Parties

Mr Robert Annells was Chairman of Forestry Tasmania Pty Ltd whose ultimate owner is also The Crown in Right of Tasmania until 1 February 2016. During the year the Company was engaged by Forestry Tasmania Pty Ltd to undertake rail freight services on commercial terms and conditions. Mr Annells excluded himself from any discussions or decisions made by the Company with respect to these services. The revenue from Forestry Tasmania Pty Ltd for the year was \$976,000 (2015: \$943,000).

The Company from time to time requires access to the rail infrastructure assets via properties adjacent to the railway line with agreement from landowners. An agreement was in place until 31 August 2015 with an entity related to Mr Robert Annells that provided for access to the railway line and for storage of materials on normal commercial terms and conditions for access rights. Mr Annells excluded himself from any discussions or decisions made by the Company with respect to this agreement.

#### (c) Ultimate owner

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

### 31. Board Approved Overseas Travel

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

	2016 Total Trips	2016 Total Cost	2015 Total Trips	2015 Total Cost
Overseas travel by the Directors and the Chief Executive Officer	Nil	Nil	Nil	Nil
Overseas travel by other employees	10	\$127,148	Nil	Nil

The overseas travel incurred was required in connection with the procurement of new rollingstock. The trips and costs incurred were allowed for in the capital project cost estimate and formed part of the design, management and quality assurance processes in procuring these new assets.

## Directors' Declaration

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

- (a) the financial statements and notes, are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Company's financial position as at 30 June 2016 and of its performance, for the financial year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2;
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable. The Directors draw attention to note 23 which includes a statement regarding the Company's dependence on government contributions;
- (d) the Directors have been given the declarations as set out in S295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2016.

Signed in accordance with a resolution of the Directors:



Robert Annells, PSM

**Chairman**

Dated at Launceston this 1st day of August 2016.

## **Independent Auditor's Report**

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

**Financial Report for the Year Ended 30 June 2016**

### **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 2016 and the statements of comprehensive income, changes in equity and cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' declaration.

### **Auditor's Opinion**

In my opinion:

- (a) the Company's financial report is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of its financial position as at 30 June 2016 and its financial performance for the year ended on that date
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

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

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

...1 of 2

## *Auditor's Responsibility*

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

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

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

### **Independence**

In conducting my audit, I have complied with the independence requirements of the *Corporations Act 2001*.

The *Audit Act 2008* promotes the independence of the Auditor-General. The Auditor-General is the auditor of all Tasmanian public sector entities and can only be removed by Parliament. The Auditor-General may conduct an audit in any way considered appropriate and is not subject to direction by any person about the way in which audit powers are to be exercised. The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters which in the Auditor-General's opinion are significant.

I confirm that the independence declaration required by the *Corporations Act 2001*, provided to the Directors dated 1 August and included in the Directors' Report, would be unchanged if provided to the Directors as at the date of this auditor's report.

### **Tasmanian Audit Office**



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

Hobart  
4 August 2016





**TASRAIL**

Published October 2016