



**STATEMENT OF
CORPORATE INTENT
2014/15 – 2017/18**

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

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

■ Employees	260
■ Annual Revenue	around \$37 million
■ Annual Freight Tonnes	approximately 2.6 million tonnes
■ Annual Shiploading Tonnes	approximately 0.6 million tonnes

BELOW RAIL

- 632 route kilometres of operational track
- 232 kilometres of non-operational track
- 1.3+ million sleepers
- 355 bridges
- 3 tunnels
- ~500 level crossings

ABOVE RAIL

- 139 weekly train services
- 6 port/freight terminals
- 2 bulk handling facilities
- 1 shiploader
- 17 TR locomotives
- 228 wagons (includes 19 log wagons)

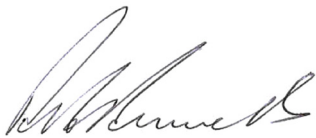
Some of the older rollingstock fleet is being retained for completion of commissioning, terminal operations and to support new business opportunities.

DIRECTORS' STATEMENT OF CORPORATE INTENT AND AGREEMENT OF SHAREHOLDING MINISTERS

The Board of Tasmanian Railway Pty Limited agrees to provide the Shareholding Ministers with financial and other information as set out in this Statement of Corporate Intent.

In signing this Statement of Corporate Intent the Board of Tasmanian Railway Pty Limited commits to the targets proposed for the 2014/15 financial year.

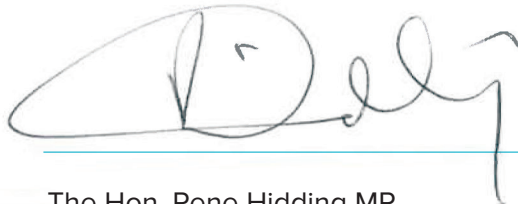
This Statement of Corporate Intent has been agreed between:



Bob Annells
Chairman
Tasmanian Railway Pty Limited
On behalf of the Board



The Hon. Peter Gutwein MP
Treasurer



The Hon. Rene Hidding MP
Minister for Infrastructure

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1. Strategic Direction

1.1. Overview of TasRail and its operating environment

TasRail's core business is the:

- Provision of rail and associated freight services in Tasmania;
- Provision of train control services;
- Management of terminals, including bulk handling and shiploading; and
- Maintenance of, and upgrades to, the rail network infrastructure across Tasmania.

TasRail marked the fourth anniversary of its establishment on 1 December 2013. The first four years of operation concentrated on rail recovery – addressing the most urgent track and infrastructure priorities, improving the safety and reliability of operations, developing new business systems and organisational capability, procuring new assets and restoring customer confidence.

The past 12 months have seen TasRail enter the revitalisation phase – commissioning and receiving new rollingstock, growing revenues, enabling economic development in Tasmania's major industries and starting the transitioning to Operational Excellence. TasRail's challenge, and opportunity in the revitalisation phase is to be able to capture new revenue sources while simultaneously maintaining existing relationships with those customers who have historically utilised rail in their supply chain.

TasRail has successfully delivered a range of complicated Above and Below Rail capital projects. This has included the replacement/refurbishment of four major bridges in the North West, insertion of nearly 100,000 concrete sleepers and the design and manufacture of 17 new locomotives and 209 wagons (across four different wagon classes). A second challenge and opportunity of the revitalisation phase is to evolve from an engineering culture (design, procure and construct) to one of Operational Excellence to improve customer service and performance and grow market share and revenue.

With a majority of major capital projects now delivered, TasRail is escalating the development of its people and systems to leverage the maximum value from the infrastructure upgrades through an Operational Excellence program. At its creation four years ago, TasRail did not have a single engineer employed with the business. However, TasRail went on to deliver a series of complicated capital projects through a targeted program of recruitment and skills development to build the organisational capacity of the business. Similarly, the right people, resources and organisational focus are now directed towards delivering Operational Excellence as a business process improvement throughout all levels of the organisation.

TasRail is more than a business; it is a strategic piece of economic infrastructure owned by the Tasmanian Government, and the Company is acutely aware of the need to contribute to the broader economy.

TasRail takes its role in servicing existing industry and enabling new business through the provision of competitive freight services and efficient supply chains very seriously, and it believes that this service provision is a critical part of its value proposition to the Tasmanian people.

Freight volumes across Australia, including Tasmania, are forecast to grow in the next decade, and with that there is a need for increased movement of freight on rail. Provided TasRail can continue to deliver reliability and productivity gains, secure volume growth and realise the consequential economies of scale, then the organisation will be well placed to offer the market a viable, sustainable and attractive alternative to road freight in Tasmania.

1.2. Strategic directions of the business

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

TasRail does not intend to compete as a freight forwarder within the intermodal market. Recognising rail's natural economy of scale, the strategy that TasRail will pursue is to create close and complementary alliances with major customers.

By working with new and existing customers and providing value added complementary services that leverage TasRail's own line haul and freight terminal expertise, TasRail will be able to develop more consistent and sustainable freight volumes.

The commencement of operations at the Brighton Transport Hub in 2014 provides the ideal platform for TasRail to launch its emerging freight terminal management capability. Combined with complementary facilities at Burnie and Bell Bay, it will provide an integrated line haul and freight terminal service package for intermodal customers.

With respect to the Bulk sector of the market, TasRail already operates a sustainable 'pit to port' business model, with further opportunity to provide integrated logistics solutions within the state.

1.3. Key initiatives

Enhance the Intermodal Business through Closer Customer Alliances

This will be achieved by:

- Consolidating and further commercialising strategic customer alliance opportunities to leverage terminal developments at Brighton, Bell Bay and Burnie.
- Leveraging TasRail's expanding freight terminal capability to provide a more direct interface with other customers, including many smaller customers who have not previously considered rail as an option.
- Continuing to develop Operational Excellence in line haul services by providing high levels of reliability, efficiency and safety.

Provide a 'Pit to Port' service wherever strategically advantageous

To achieve this, TasRail will:

- Compete for any new business opportunities in the Bulk market.
- Continue to develop fully integrated logistics solutions for existing and new Bulk customers that leverage rail's natural competitive advantage in hauling consistent heavy base load cargos.

Establish a presence as a competent freight terminals provider

TasRail established commercial operations at the Brighton Transport Hub during March 2013 and upon transition, commenced full operations at Brighton in June 2014. The provision of a direct intermodal interface with customers will transform rail freight activities in Tasmania. This will be the catalyst for a wider offering of terminal services at other rail locations, including Burnie and Bell Bay. Historically, the provision of terminal services by the rail operator in Tasmania has not been considered something of value for customers. However, by offering value-adding terminal services to large, medium and small customers, TasRail will create and develop an important platform for further growth.

Continue to develop a ‘Fit for Purpose’ Rail Network

The objective of this strategy is to achieve a safe and reliable network to deliver the required service levels and efficiencies at the lowest possible cost, within available Australian Government funding limitations. This is being achieved through targeted works programs including:

- The replacement or rehabilitation of the four major bridges in the north-west of the state at a cost in the order of \$24 million (completed by June 2014).
- Installing approximately 70 kilometres of concrete sleepers on the tightest radius curves on the Hobart to Burnie freight corridor to address a prime cause of track instability and derailment risk (completed by June 2014).

Below Rail investment beyond June 2014 is subject to TasRail securing further Australian Government investment under the Infrastructure Investment Program.

Provide quality Above Rail services responsive to customer demands

TasRail operations need to deliver Operational Excellence, customer-focused outcomes at competitive prices. Key activities in this area include:

A once-in-a-generation investment opportunity to procure and commission a new locomotive fleet that has seen 17 new locomotives supplied under contract by Downer Rail in partnership with Progress Rail USA. The first of the new fleet arrived in late 2013 and the entire fleet is now in service. The new locomotive fleet is providing a ‘step change’ for TasRail, providing substantially higher levels of reliability and hauling capacity at significantly lower fuel and maintenance costs.

The new locomotives are matched to a fleet of 209 new purpose built wagons across four classes. Wagon prototypes were tested on the Tasmanian network in late 2013 prior to mass production commencing. As at May 2014, the entire new wagon fleet was in service. The new wagons have lower operating costs, improved reliability, increased capacity and improved safety features. Improvements to rollingstock reliability and enhanced freight terminal capability can now position the business to increase its market share of the contestable land freight market.

1.4. New business

The targets and estimates provided in this Statement of Corporate Intent recognise TasRail’s growing confidence in its commercial position. Long-term contracts are being entered into with existing customers, and TasRail has executed new contracts with proposed new customers. When combined with existing customer growth, TasRail expects to see an increase in revenue in the coming years. While TasRail has executed a number of modernised contracts with existing and new customers, it must be acknowledged that TasRail’s revenue is largely a function of industrial activity in Tasmania, and as such is linked to the continuing growth of the state.

2. Performance Agreement

2.1. Performance Target for 2014/15

Performance Target	Actual Result 2013/14	Target Result 2014/15
Recordable Injury Frequency Rate*	18.4	13.3
On Time Arrivals (within 30 minutes) Intermodal & Paper	65 per cent	90 per cent
Main Line Derailments	3	3
Customer Revenue	\$37.0 m	\$34.3 m
Capital Spend	\$86.8 m	\$78.3 m
EBITDA** (consolidated) after Tas GVT Below Rail Infrastructure Contribution	(\$0.83) m	(\$1.4) m

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

** EBITDA assumes no changes to forecast funding arrangements



2.2. Performance Estimates for 2015/16 to 2017/18

Performance Target	2015/16	2016/17	2017/18
Recordable Injury Frequency Rate*	10.0	6.7	3.3
On-Time Arrivals (within 30 minutes) Intermodal & Paper	90 per cent	90 per cent	90 per cent
Main Line Derailments	4	4	4
Customer Revenue	\$40.8 m	\$43.9 m	\$47.3 m
Capital Spend	\$24.0 m	\$24.0 m	\$24.0 m
EBITDA**(consolidated) after Tas GVT Below Rail Infrastructure Contribution	\$0.4 m	\$(0.2) m	\$(0.3) m

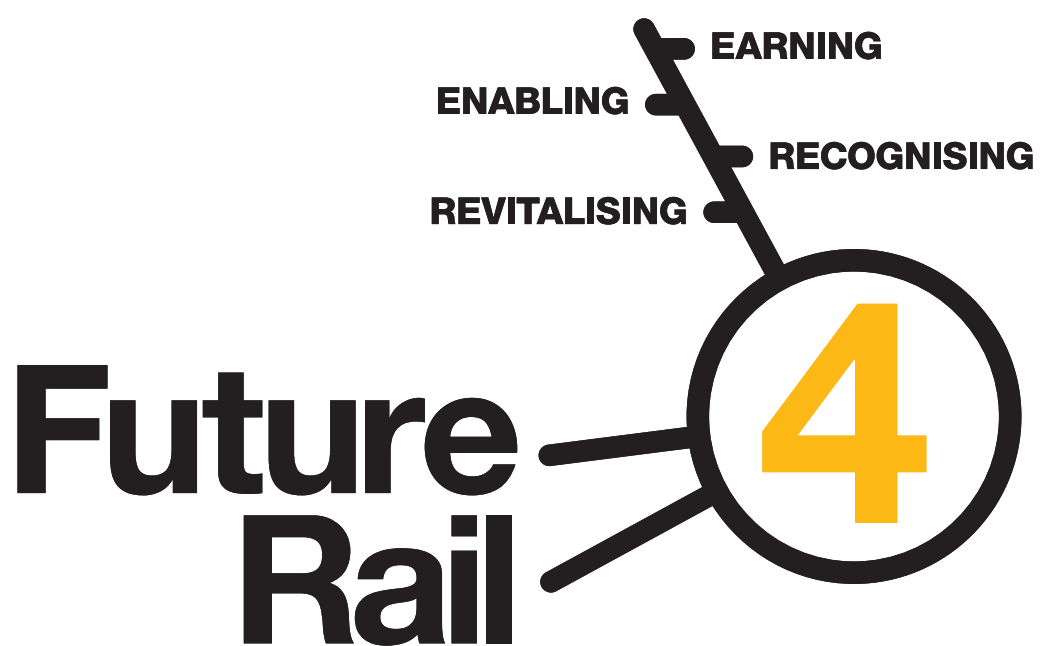
* Recordable Injury is defined as the sum of Lost Time Injuries, Suitable Duties and Medical Treatment Injuries per million person work hours.

** EBITDA assumes no changes to forecast funding arrangements

Critical assumptions:

1. The absolute increase in forecast Main Line Derailments is due primarily to the assumed reduction in the value of future Below Rail capital upgrades.
2. The increase in Customer Revenue from 2015/16 FY will primarily be the result of incremental growth from existing and new intermodal customers.
3. The Capital Spend assumes a \$120m Below Rail investment over five years commencing in 2014/15 FY.
4. The majority of Capital Spend in 2014/15 FY relates to the implementation of the new Train Control system and finalisation of payments for the new locomotive and wagon fleet.





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