



STATEMENT OF CORPORATE INTENT

2013/2014 to 2016/2017

Tasmanian Railway Pty Ltd (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; and
- Maximise sustainable returns to its Shareholder Members.

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- | | |
|-------------------------|---|
| ■ Annual Revenue | around \$35 million |
| ■ Annual Freight Tonnes | approximately 2.5 million tonnes |
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BELOW RAIL

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

ABOVE RAIL

- 140+ train services per week
- 6 port/freight terminals
- 2 bulk handling facilities
- 1 shiploader
- 36 locomotives
- 374 wagons

DIRECTORS' STATEMENT OF CORPORATE INTENT AND AGREEMENT OF SHAREHOLDING MINISTERS

The Board of Tasmanian Railway Pty Ltd 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 Ltd commits to the targets proposed for the (2013-2014) financial year.

This Statement of Corporate Intent has been agreed between:



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



The Hon. Lara Giddings MP
Treasurer



The Hon. David O'Byrne 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;
- the provision of train control services;
- the management of terminals, including bulk handling and loading; and
- the maintenance of, and upgrades to, the rail network infrastructure in Tasmania.

TasRail marked the third anniversary of its establishment on 1 December 2012. The past three years have been all about *"Rail Recovery"* – addressing the most urgent track and infrastructure priorities, improving the safety and reliability of our operations, developing new business systems and organisational capability, procuring new assets and restoring customer confidence.

The Company's strategic direction is now maturing, enabling the emphasis to move towards *"Rail Revitalisation"* with the primary focus being to now capitalise on existing and new business opportunities, whilst fully leveraging the full value and potential of our new assets.

However it is important to note that TasRail is more than a business. It is strategic piece of economic infrastructure owned by the Tasmania Government, and the Board is acutely aware of the need for the Company's operations to contribute to the broader economy. TasRail takes very seriously its role in supporting existing industry and employment, and enabling new business and industry through the provision of competitive freight services and efficient supply chains.

TasRail recognises that there are limitations to what it can offer, relative to the larger freight forwarding companies already operating across all aspects of the intra and interstate freight logistics supply chain. TasRail's strategy is therefore to increase its capability to offer improved service levels from which to grow and attract new volumes, to develop new business and to increase value adding opportunities for the market.

Provided TasRail can continue to secure volume growth and realise the consequential economies of scale, then TasRail 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

Developing to become: ***"A World class, vertically integrated, short haul freight railway"***

TasRail does not intend to be an integrated total logistics provider 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 linehaul 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 provides the ideal platform to launch TasRail's emerging freight terminal management capability and, combined with complementary facilities at Burnie, 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, particularly with proposed new mining developments on the North-East and West Coast of Tasmania.

1.3. Key Initiatives

1.3.1 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 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 excellence in linehaul services by providing high levels of reliability, efficiency, and safety.

1.3.2 Provide a “Pit to Port” service for Bulk Customers wherever strategically advantageous

To achieve this TasRail will:

- Compete vigorously for any new business opportunities in the Bulk market.
- Continue to develop fully integrated logistics solutions for existing and new Bulk customers.

1.3.3. Establish a presence as a competent Freight Terminals provider

TasRail established commercial operations at the Brighton Transport Hub during March 2013. 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, Bell Bay and potentially Devonport. 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.

1.3.4 Continue to develop a reliable “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 Federal Government capital funding limitations. This will be achieved through targeted works programs including:

- The replacement or rehabilitation of four major bridges in the North-West of the State at a cost in the order of \$24 million (scheduled completion: end 2013).
- Installing approximately 70 kilometres of concrete sleepers on the tightest radius curves on the South and Western Lines, to address a prime cause of track instability and derailment risk (scheduled completion: 30 June 2014).
- Subject to TasRail securing sufficient Nation Building Two funding, implement the second stage of the concrete re-sleeper program to further improve safety and reliability

accompanied by a re-railing program. This will progressively address the substantial backlog of inherited defects, with the resultant track structure ultimately being more economic to maintain.

- Commencing the replacement of approximately 600 lineal kilometres of life-expired rail, subject to TasRail securing Nation Building Two funding.

1.3.5. Provide efficient and high quality Above Rail services that are responsive to customer demands

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

- A once in a generation investment opportunity to procure a new locomotive fleet will see 17 new locomotives supplied under contract by Downer Rail in partnership with Progress Rail USA. The first of the new fleet is scheduled to start arriving from late 2013 with completion scheduled by end 2014. The new locomotive fleet will be a “game changer” for TasRail, providing substantially higher levels of reliability and hauling capacity at significantly lower fuel and maintenance costs.
- This new haulage capability, coupled with the recently ordered new wagon fleet, the improvement of rail network reliability, and enhanced freight terminals capability will position the business to transfer substantially more freight volumes from road to rail.

1.4. Potential new business

The targets and estimates provided in this Statement of Corporate Intent have only considered the capacity for revenue growth within the existing market base and the cost efficiencies expected to be realised as a result of the current investment program. Included in these targets is TasRail’s first timber haulage revenue for approximately a decade.

TasRail is encouraged by the results of its work to date to develop and secure new business opportunities in the bulk commodity market segments in partnership with potential new customers.

Whilst TasRail is working on the capability to realise these new business opportunities, it must be acknowledged that whether they are ultimately realised remains in a large part subject to the proponents’ capacity to secure the necessary resources and approvals to undertake the developments.

Should several of these opportunities come to fruition, their impact would go a long way to ensuring the long-term financial health of the Above Rail Business and allow the overall operation of the Company to be more sustainable.

2. Performance Agreement

2.1. Performance Targets for 2012-13 and 2013-14

| Performance Target | Expected Result 2012/13 | 2013/14 |
|--|----------------------------|---------------|
| Recordable Injury Frequency Rate* | 16.3 | 13.3 (↓ 18%) |
| On Time Arrivals (Intermodal & Paper) | 77% | 87% (↑ 13%) |
| Main Line Derailments | 3 | 1 |
| Customer Revenue | \$35,631,000 | \$38,070,000 |
| Capital Spend | \$77,899,000 | \$104,435,000 |
| EBITDA | \$(1,552,000) | \$(1,010,000) |
| Operating Grant | \$16,288,000 | \$16,569,000 |



2.2. Performance Estimates for 2014-15 to 2016-17

| Performance Target | 2014-2015 | 2015-2016 | 2016-2017 |
|--|--------------|--------------|--------------|
| Recordable Injury Frequency Rate* | 10 (↓ 25%) | 6.7 (↓ 33%) | 3.3 (↓ 50%) |
| On-Time Arrivals (Intermodal & Paper) | 90% (↑ 3%) | 96% (↑ 7%) | 96% |
| Main Line Derailments | 1 | 1 | 1 |
| Customer Revenue | \$38,298,000 | \$39,888,000 | \$41,621,000 |
| Capital Spend | \$60,953,000 | \$56,071,000 | \$57,250,000 |
| EBITDA | \$2,470,000 | \$153,000 | \$1,437,000 |
| Operating Grant | \$16,834,000 | \$11,992,000 | \$11,966,000 |

* A Recordable Injury is defined as the sum of Lost Time Injuries, Alternate/Suitable Duties and Medical Treatment Injuries.





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