



STATEMENT OF CORPORATE INTENT

2012/13 TO 2015/16

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 **\$30 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

- 115 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 (2012-2013) 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 was established on 1 December 2009 as a vertically integrated freight railway incorporating all Below and Above Rail assets. TasRail inherited a business characterised by many decades of underinvestment, and significant funding has since been provided by both the Federal and State Governments to begin the recovery process. Since establishment, substantial progress has been made to restore both the credibility and performance of the freight rail business in Tasmania.

TasRail continues to make considerable advances in its capability to operate as a commercially viable freight transport business, and to successfully implement its ambitious capital program. The Company is now well established, having spent its first two years developing the required organisational capability, and steadily achieving incremental improvements in the operation and performance of the business.

With the broader freight market and the general community now demonstrating a growing confidence in the credibility of freight rail in Tasmania, TasRail is well positioned to progressively move away from operations that have, by necessity, focussed on the ‘rail recovery’ phase and move towards operations that can result in a sustainable Above Rail Business. It should be noted that the Below Rail Operations will always be expected to require an Annual Operating Grant from the State Government for maintenance of the extensive railway network and associated infrastructure.

An intensive market engagement program developed over the past twelve months has provided TasRail with a very detailed understanding of available market opportunities. Based on a strategic assessment of our business environment, a robust planning model and thorough analysis, TasRail now has a clear business vision, strategy and a customer relationship model designed to best position the Company into the future.

Provided TasRail can continue to secure volume growth, realise the consequential economies of scale, and implement its strategy to expand service offerings and value-add activities for customers, then TasRail can provide a viable, and more attractive alternative to the road freight network in Tasmania.

1.2. Strategic Directions of the Business

Developing TasRail to become a “World class vertically integrated short haul freight railway”

Traditionally, the linehaul component of a transport task is the lowest margin component. This is even more prevalent in Tasmania due to the short nature of the linehaul task, and the intense and somewhat skewed nature of the road linehaul capacity. As a consequence, and in order to generate improved margins in the business, TasRail will exploit all avenues for increased involvement in the logistics chain wherever possible, but in a very deliberate and strategic manner.

The TasRail Board has made a conscious choice that the Company will *not* be an integrated total logistics provider within the Intermodal market sector. Recognising rail's natural economies of scale, the strategy that TasRail will pursue is to create close and complementary alliances with major customers. By providing value added complementary services that leverage its customers' strong market position and TasRail's own linehaul and freight terminal expertise, TasRail will be able to develop more consistent and sustainable freight volumes.

With respect to the Bulk sector of the market, TasRail considers that there is already a sustainable "pit to port" business opportunity to provide integrated logistics solutions within the state. TasRail will further develop integrated bulk solutions based on the package it already provides to an existing customer on the West Coast. In this package, TasRail provides the road leg (under sub contract arrangements), loads to rail and provides rail linehaul, bulk storage, and shiploading facilities.

With respect to the Intermodal customer model, the imminent commencement of operations at the new Brighton Transport Hub provides the ideal platform to launch TasRail's emerging freight terminal capability and, combined with complimentary facilities at Burnie, provide an integrated line haul and freight terminal service package for Intermodal customers.

1.2.1. Key initiatives

Further Enhance TasRail's Intermodal Business Model Through Closer Customer Relationships and Alliances

This will be achieved by:

- a. Continuing to forge strategic alliances with freight forwarding companies to leverage their market position and shipping capability through Tasmanian Ports.
- b. Leveraging TasRail's expanding freight terminal capability to provide a more direct interface with other customers.
- c. Continuing to develop excellence in TasRail's linehaul services by providing high levels of reliability, efficiency, and service.

Further Consolidate TasRail's Bulk Business Model by Providing a "Pit-to-Port" Service Package Wherever Possible

To achieve this, TasRail will

- a. Further enhance the Company's ability to undertake non-rail activities (for example, the provision of "feeder" road services).
- b. Leverage TasRail's infrastructure construction capability to develop improved modal interfaces with Bulk customers.
- c. Continue to promote and develop fully integrated logistics solutions to existing and new Bulk customers.
- d. Compete aggressively for any new business opportunities.

Establish a Presence as the Premier Freight Terminals Provider

During 2012, TasRail will establish operations at the Brighton Transport Hub. The concept of a direct interface with customers will transform rail freight activities in Tasmania, and comes at a time that TasRail is able to provide an improved and wider scope of service offerings. The location of the Brighton Transport Hub is consistent with the gradual relocation of distribution activities from the Hobart CBD to the northern suburbs.

The commencement of services at Brighton will be the catalyst for a much wider offering of terminal services at other rail locations, specifically Burnie, Devonport, 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 many customers TasRail will create and develop an important platform for further growth.

Continue to Develop a Reliable, “fit for purpose” Rail Infrastructure Network

TasRail strives to achieve a safe and reliable network designed to deliver the required service levels and rail transport efficiencies at the lowest possible cost (and within available funding limitations). This will be achieved through targeted works programs including:

- a. The replacement or rehabilitation of four major bridges in the north-west of the State.
- b. Undertaking the initial stage of a concrete resleeping program whereby 100,000 concrete sleepers will be installed on the tightest curves on TasRail’s network (approximately 70 kilometres in total). This work will also include the major rehabilitation of track formation and some re-railing to replace life-expired rail. Once completed, these works programs will have significantly reduced the risks of derailment and requirement for speed restrictions at those locations.
- c. The rollout of a second stage of the concrete re-sleeping program to further improve the safety and reliability of the network and to progressively address the substantial number of inherited rail flaw defects. TasRail’s capacity to undertake these works is predicated on securing further Nation Building funding for network renewals beyond the term of the existing MOU that expires on 30 June 2014.
- d. Replacement of approximately 600 lineal kilometres of life-expired rail. TasRail has been able to source sufficient volumes of serviceable second-hand rail on the mainland for a fraction of the cost of purchasing new rail. The requirement for funding for this project was included in TasRail’s submission currently under consideration by Infrastructure Australia for the next tranche of Nation Building funding.
- e. Marketing TasRail’s emerging capability which goes beyond simply operating a railway business and includes engineering experience and the related development and management of infrastructure. This is potentially another means by which TasRail can provide value-added and complementary services to customers.

Provide Quality Above Rail services that are Responsive to Customer Demands

TasRail operations need to deliver quality outcomes for customers at the lowest possible cost. Key activities in this area during the planning period include the following projects for which the State Government has committed capital investment funding (as confirmed in the Forward Estimates - Tasmanian State Budget 2011/12);

- a. Procuring a new locomotive fleet. This initiative represents a once in a generation investment opportunity and the single largest project that TasRail will embark upon. The 17 new locomotives to be supplied under contract by Downer EDI in partnership with Progress Rail USA will start arriving from mid-2013 with completion scheduled for the end of 2014. The new locomotive fleet will be a “game changer” for rail in the state providing substantially higher levels of reliability and hauling capacity and significantly lower fuel and maintenance costs.
- b. Procuring new freight wagons. The replacement of TasRail’s fleet of coal and cement wagons is required due to the near life-expired condition of those assets. Much of TasRail’s existing container wagon fleet is either near life-expired, or of a design that is either inefficient and/or introduces derailment and other safety risks. The new container fleet will comprise of low-deck, low-tare wagons and carry two 6.1metre (20 foot) containers or one 40 foot container. TasRail aims to procure wagons fitted with bogies that are best able to cater with TasRail’s narrow gauge, tight curved network. Unlike the current wagon fleet, the new low-deck specification will enable TasRail to safely carry a wider range of products.
- c. The introduction of an upgraded train control system is necessary to enable TasRail to substantially improve the safety of its operations, whilst at the same time increasing the capacity of the network by streamlining Safe Working arrangements.

1.2.2. 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 (largely growth in intermodal volumes), and the cost efficiencies expected to be realised as a result of the current investment program. Based on this initial forecast, the long-term outlook for the Above Rail Business is that whilst it will continue to grow its returns, these returns will not be sufficient to support the expected future sustaining reinvestment requirements for the business.

However, TasRail is encouraged by its work to date on the potential to develop other new business opportunities in partnership with potential new customers. These include:

- a. Coal to Bell Bay (for export)
- b. Iron ore to Burnie
- c. Log traffics (currently in feasibility stage)
- d. Forward Mining – longer-term, but large volumes forecast from the north-west

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 to undertake the developments.

Should several of these opportunities come to fruition it 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 2012-2013

Performance Target	Expected Result 2011-2012	2012-2013
Recordable Injury Frequency Rate*	33.8	16.3 (52% ↓)
On Time Arrivals (Intermodal & Paper)	79%	83% (10% ↑)
Main Line Derailments	2	2
Customer Revenue	\$33,493,000	\$35,623,000
Capital Spend	\$63,575,000	\$88,466,000
EBITDA	(\$1,820,000)	(\$1,495,000)
Operating Grant	\$18,775,000	\$16,288,000

2.2. Performance Estimates for 2013-14 to 2015-16

Performance Target	2013-2014	2014-2015	2015-2016
Recordable Injury Frequency Rate*	13.3 (20% ↓)	10.0 (25% ↓)	6.7 (33% ↓)
On-Time Arrivals (Intermodal & Paper)	87% (10% ↑)	96% (10% ↑)	96%
Main Line Derailments	1	1	1
Customer Revenue	\$43,200,000	\$44,289,000	\$47,121,000
Capital Spend	\$72,824,000	\$49,994,000	\$37,500,000
EBITDA	\$1,594,000	\$2,685,000	\$11,500,000
Operating Grant	\$16,569,000	\$16,834,000	\$11,992,000

* Recordable Injury is defined as the sum of Lost Time Injuries and Medical Treatment Injuries.

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