Queensland Rail

2010/11 Financial Report

Contents

Directors' report

Your directors present their report together with the financial report of Queensland Rail Limited and its controlled entities (the group) at the end of, or during, the year ended 30 June 2011 and the auditor's report thereon.

Directors
The following persons were directors of Queensland Rail Limited during the financial year and up to the date of this report:

S Gregg - *Chairman*
M Hayes
Dr L Keliher AO
M McArthur
D McMillan-Hall
D Petie
J Schafer

Information relating to directors' qualifications is contained in the Governance section of the Annual Report.

Information relating to directors' remuneration is contained in note 29 of the Financial Report.

Principal activities
During the year the principal activities of the group consisted of:
(a) Passenger services throughout Queensland;
(b) Non-coal network access services throughout Queensland;
(c) Design and construction of rail infrastructure; and
(d) Associated maintenance of both the above and below rail operations.

Review of operations
The profit of the group for the financial year amounted to $149.3 million (2010: $10.6 million).

For a detailed review of the group's operations refer to the Our Achievements section of the Annual Report.

Significant changes in the state of affairs
Significant changes in the state of affairs of the group during the financial year were as follows:

QR Passenger Pty Ltd changed its name to Queensland Rail Limited on 11 June 2010. This reflected the fundamental change to the operations of the company that were to take place when the company became a fully integrated rail services provider on 1 July 2010.

The company has taken ownership of all rail infrastructure in the metropolitan network and the non-coal regional rail network and become responsible for its construction, maintenance and operation. This marks a significant extension of the company's operations as QR Passenger Pty Ltd had been limited to the operation of metropolitan passenger trains.

In the prior reporting period, a portion of the net assets associated with the non-coal network infrastructure and other assets utilised in servicing the Passenger and Network operations, were transferred from QR Limited (former parent of Queensland Rail Limited), and QR Network Pty Ltd, a subsidiary of QR Limited, to Queensland Rail Limited. These transactions occurred in accordance with the "Transfer Notice".

The Transfer Notices were enacted pursuant to the *Infrastructure Investment (Asset Restructuring and Disposal) Act 2009.* This notice provides for the transfer of all legal rights, titles, interest, obligations and liabilities relating to specific items within the passenger operations from QR Limited and QR Network Pty Ltd to Queensland Rail Limited.

Further Transfer Notices, effective on 31 August 2010 and 6 October 2010, resulted in the transfer of additional assets and liabilities to Queensland Rail Limited, including all of the shares in QR Limited's captive insurance company, On Track Insurance Pty Ltd.

The net assets were transferred at book value and included property, plant and equipment, receivables, provisions, deferred tax assets and liabilities and similar items listed in the Transfer Notice.

Queensland Rail Limited's income statement is significantly different from the previous year due to the extensively expanded nature of its operations in 2011. The comparative year comprised the operations of the passenger services business only. The current reporting period includes the non-coal network access business and associated below rail maintenance operations as well as corporate and non-corporate overheads.

Matters subsequent to the end of the financial year
No matters or circumstances have arisen since the end of the financial year which significantly affected, or may significantly affect the operations of the group, the results of those operations, or the state of affairs of the group in future financial years.

Likely developments and expected results of operations
Further information on likely developments in the operations of the group and the expected results of operations has been included in the Chairman's Outlook section of the Annual Report.

Environmental regulation
The group is required to comply with relevant environmental legislation. Exposure in this area is primarily related to noise, air, land and water pollution, environmental impacts associated with development, and energy use and greenhouse emissions. Due to their nature it is not possible to provide an estimate of the future expenditure in these areas.

Primary legislation and regulations to which the group is subject are as follows:

- *Environmental Protection Act 1994*
- *Energy Efficiency Opportunities Act 2006*
- *Environmental Protection and Biodiversity Conservation Act 1999*
- *Ozone Protection and Synthetic Greenhouse Gas Management Act 1989*
- *National Greenhouse and Energy Reporting Act 2007*
- *Fisheries Act 1994*
- *Sustainable Planning Act 2009*
- *Land Protection (Pest and Stock Route Management) Act 2002*
- *Nature Conservation Act 1992*
- *Plant Protection Act 1989*
- *State Development and Public Works Organisation Act 1971*
- *Vegetation Management Act 1999*
- *Water Act 2000*
- *Wet Tropics World Heritage Protection and Management Act 1993*

Greenhouse gas and energy data reporting requirements
The group is subject to the assessment and reporting requirements of the *National Greenhouse and Energy Reporting Act 2007*, and the *Energy Efficiency Opportunities Act 2006.*

The *National Greenhouse and Energy Reporting Act 2007* requires the group to report annually its greenhouse gas emissions and energy use. Queensland Rail Limited is registered as a controlling corporation and will be preparing a report to cover the activities of the group for the 2010/11 year for submission in October 2011.

The *Energy Efficiency Opportunities Act 2006* requires the group to assess its energy usage, including the identification, investigation and evaluation of energy saving opportunities, and to report publicly on the assessments undertaken, including what action the group intends to take as a result. In accordance with the Act, Queensland Rail Limited's first public report will be released by December 2013.

QR Limited, as the former parent entity and former registered controlling corporation, fulfilled all reporting obligations under both the *National Greenhouse and Energy Reporting Act 2007*, and the *Energy Efficiency Opportunities Act 2006* in prior reporting periods.

Meetings of directors
The number of meetings the company's Board of Directors and each board committee held during the year ended 30 June 2011, and the number of meetings attended by each director were:

	Board Meetings		Audit		People & Organisation	
	A	B	A	B	A	B
S Gregg - *Chairman*	10	10	1	1	-	-
M Hayes	9	10	-	-	1	2
Dr L Keliher AO	7	10	4	6	-	-
M McArthur	9	10	-	-	2	2
D McMillan-Hall	9	10	6	6	-	-
D Petie	9	10	-	-	2	2
J Schafer	10	10	6	6	-	-

Directors' report
(continued)

Meetings of directors (continued)

A = Number of meetings attended
B = Number of meetings held during the time the director held office or was a member of the committee during the year

Dividends
In respect of the financial year ended 30 June 2011, a dividend of $84.4 million was declared to the holders of fully paid ordinary shares (2010: nil). This dividend will be paid in December 2011.

Insurance of officers
During the financial year, Queensland Rail Limited paid a premium in respect of an insurance contract to indemnify officers against liabilities that may have arisen from their position as officers of the parent and its controlled entity. Officers indemnified include the company secretary, directors and all executive officers participating in the management of the group.

Further disclosure required under section 300 of the *Corporations Act 2001* is prohibited under the terms of the contract.

Proceedings on behalf of the group
No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the group, or to intervene in any proceedings to which the group is a party, for the purpose of taking responsibility, on behalf of the group, for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the group with leave of the Court under section 237 of the *Corporations Act 2001*.

Auditor's independence declaration
The auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

Rounding of amounts
The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Auditor
The Auditor-General of Queensland continues in office in accordance with section 327 of the *Corporations Act 2001*, the Auditor General is appointed in accordance with the *Auditor General Act 2009*.

This report is made in accordance with a resolution of the directors.

S Gregg
Chairman

Brisbane, Qld
29 August 2011

Auditor's Independence Declaration

To the Directors of Queensland Rail Limited

This auditor's independence declaration has been provided pursuant to s.307C of the *Corporations Act 2001*.

Independence Declaration

As lead auditor for the audit of Queensland Rail Limited for the year ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

G G POOLE FCPA
Auditor-General of Queensland

AUDITOR GENERAL
25 AUG 2011
OF QUEENSLAND

Queensland Audit Office

Financial statements

Consolidated income statement for the year ended 30 June 2011

	Notes	**2011 $'000**	2010 $'000
Revenue from operations	5	**1,837,678**	936,472
Other income	6	**5,367**	386
Consumables		**(525,071)**	(352,221)
Employee benefits expense		**(669,802)**	(315,041)
Depreciation and amortisation expense	7	**(251,473)**	-
Depreciation recharge	7	**-**	(117,221)
Lease capital charge	7	**-**	(135,012)
Other expenses	7	**(10,838)**	(1,499)
Finance costs	7	**(224,539)**	-
Profit before income tax		**161,322**	15,864
Income tax expense	8	**(12,058)**	(5,305)
Profit for the year		**149,264**	10,559

The above consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated statement of comprehensive income for the year ended 30 June 2011

	Notes	2011 $'000	2010 $'000
Profit for the year		**149,264**	10,559
Other comprehensive income			
Changes in the fair value of cash flow hedges	27	**(1,587)**	-
Income tax relating to components of other comprehensive income	8	**476**	-
Other comprehensive income for the year, net of tax		**(1,111)**	-
Total comprehensive income for the year, net of tax		**148,153**	10,559

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Financial statements
(continued)

Consolidated balance sheet as at 30 June 2011

	Notes	**2011 $'000**	2010 $'000	1 July 2009 $'000
ASSETS				
Current assets				
Cash and cash equivalents	9	**166,532**	168	234
Trade and other receivables	10	**344,347**	177,993	155,444
Inventories	11	**42,759**	55,973	21,990
Derivative financial instruments	12	**1,629**	1,368	-
Other current assets	13	**26,863**	403	86
Total current assets		**582,130**	235,905	177,754
Non-current assets				
Receivables	14	**27,099**	-	393,148
Derivative financial instruments	12	**-**	698	-
Inventories	15	**19,458**	8,615	6,703
Property, plant and equipment	16	**5,826,039**	5,174,103	-
Intangible assets	17	**14,290**	-	-
Deferred tax assets	18	**103,817**	88,609	27,347
Other non-current assets	19	**23,563**	53,941	-
Total non-current assets		**6,014,266**	5,325,966	427,198
Total assets		**6,596,396**	5,561,871	604,952
LIABILITIES				
Current liabilities				
Trade and other payables	20	**329,941**	89,732	190,877
Derivative financial instruments	12	**3,870**	5,142	-
Current tax liabilities		**26,921**	-	-
Provisions	21	**46,824**	10,007	-
Other current liabilities	22	**260,757**	265,005	93,703
Total current liabilities		**668,313**	369,886	284,580
Non-current liabilities				
Borrowings	23	**3,000,000**	3,000,000	-
Deferred tax liabilities	24	**371,942**	363,090	228
Provisions	21	**34,608**	32,425	-
Derivative financial instruments	12	**453**	1,736	-
Other non-current liabilities	25	**48,589**	23,335	285,108
Total non-current liabilities		**3,455,592**	3,420,586	285,336
Total liabilities		**4,123,905**	3,790,472	569,916
Net assets		**2,472,491**	1,771,399	35,036
EQUITY				
Contributed equity	26	**2,363,172**	1,725,804	-
Reserves	27(a)	**(1,111)**	-	-
Retained earnings	27(b)	**110,430**	45,595	35,036
Total equity		**2,472,491**	1,771,399	35,036

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity for the year ended 30 June 2011

	Notes	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2009 as reported in the 2010 financial statements		**-**	**-**	**40,090**	**40,090**
Impact of prior period restatement	4	-	-	(5,054)	(5,054)
Restated total equity at the beginning of the financial year		**-**	**-**	**35,036**	**35,036**
Total comprehensive income for the year		**-**	**-**	**10,559**	**10,559**
Transactions with owners in their capacity as owners:					
Capital distribution from former parent	26	1,725,804	-	-	1,725,804
Restated balance at 30 June 2010		**1,725,804**	**-**	**45,595**	**1,771,399**

	Notes	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2010 as reported in the 2010 financial statements		**1,725,804**	**-**	**52,336**	**1,778,140**
Impact of prior year restatement	4	-	-	(6,741)	(6,741)
Restated total equity at the beginning of the financial year		**1,725,804**	**-**	**45,595**	**1,771,399**
Total comprehensive income for the year		**-**	**(1,111)**	**149,264**	**148,153**
Transactions with owners in their capacity as owners:					
Capital distribution from former parent	26	314,498	-	-	314,498
Contributions of equity	26	322,870	-	-	322,870
Dividends provided for or paid	28	-	-	(84,429)	(84,429)
		637,368	-	(84,429)	552,939
Balance at 30 June 2011		**2,363,172**	**(1,111)**	**110,430**	**2,472,491**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated cash flow statement for the year ended 30 June 2011

	Notes	2011 $'000	2010 $'000
Cash flows from operating activities			
Receipts from customers*		**370,478**	139,695
Receipts from Government*		**1,557,546**	900,745
Interest received		**3,243**	358
Payments to suppliers and employees*		**(1,158,606)**	(750,139)
Interest and other cost of finance paid		**(202,679)**	-
Net GST received / (paid)		**(85,929)**	(78,329)
Net cash inflow / (outflow) from operating activities	36	**484,053**	212,330
Cash flows from investing activities			
Proceeds from the disposal of assets		**12,138**	-
Payments for fixed assets		**(652,690)**	-
Loans to related parties		**-**	(212,382)
Net cash inflow / (outflow) from investing activities		**(640,552)**	(212,382)
Cash flows from financing activities			
Contribution of equity	26	**322,870**	-
Net cash inflow / (outflow) from financing activities		**322,870**	-
Net increase / (decrease) in cash and cash equivalents		**166,371**	(52)
Cash and cash equivalents at the beginning of the financial year		**155**	207
Cash and cash equivalents at end of year**	9	**166,526**	155

* Inclusive of goods and services tax (GST).
** Net of monies held in trust.

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Queensland Rail Limited and its subsidiary, On Track Insurance Pty Ltd.

Queensland Rail Limited is a corporation limited by shares, incorporated and domiciled in Australia and owned by the Queensland State Government. This financial report is denominated in Australian dollars.

QR Passenger Pty Ltd changed its name to Queensland Rail Limited on 11 June 2010. This reflected the fundamental change to the operations of the company that were to take place when the company became a fully integrated rail services provider on 1 July 2010.

The company has taken ownership of all rail infrastructure in the metropolitan network and the non-coal regional rail network and become responsible for its construction, maintenance and operation. This marks a significant extension of the company's operations as QR Passenger Pty Ltd had been limited to the operation of metropolitan passenger trains.

In the prior reporting period, a portion of the net assets associated with the non-coal network infrastructure and other assets utilised in servicing the Passenger and Network operations, were transferred from QR Limited (former parent of Queensland Rail Limited), and QR Network Pty Ltd, a subsidiary of QR Limited, to Queensland Rail Limited. These transactions occurred in accordance with the "Transfer Notice".

The Transfer Notices were enacted pursuant to the *Infrastructure Investment (Asset Restructuring and Disposal) Act 2009.* The notices provide for the transfer of all legal rights, titles, interest, obligations and liabilities relating to specific items within the passenger operations from QR Limited and QR Network Pty Ltd to Queensland Rail Limited.

Further Transfer Notices, effective on 31 August 2010 and 6 October 2010, resulted in transfer of additional assets and liabilities to Queensland Rail Limited, including all of the shares in QR Limited's captive insurance company On Track Insurance Pty Ltd.

Queensland Rail Limited's income statement is significantly different from the previous year due to the extensively expanded nature of its operations in 2011. The comparative year comprised the operations of the passenger services business only. The current reporting period includes the non-coal network access business and associated below rail maintenance operations as well as corporate and non-corporate overheads.

Queensland Rail Limited is referred to in this financial report as the "company" or the "parent". Queensland Rail Limited together with its subsidiary, On Track Insurance Pty Ltd, are collectively referred to as the "group".

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, and the *Corporations Act 2001.*

(i) Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). The financial statements and notes of the group comply with International Financial Reporting Standards (IFRS).

(ii) New and amended standards adopted by the company

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2010:

- AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
- AASB 2009-8 *Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions*
- AASB 2009-10 *Amendments to Australian Accounting Standards – Classification of Rights Issues*
- AASB Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments* and AASB 2009-13 *Amendments to Australian Accounting Standards arising from Interpretation 19*
- AASB 2010-1 *Amendments to Australian Accounting Standards – Limited Exemption from Comparative AASB 7 Disclosures for First-time Adopters*
- AASB 2010-3 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project*.

Of the above, only AASB 2009-5 has been early adopted. The adoption of these standards did not have any impact on the current period or any prior period and is not likely to effect future periods.

1 Summary of significant accounting policies (continued)

(iii) Early adoption of standards

The following standards and amendments to standards are available for early adoption for the financial year beginning 1 July 2010:

- AASB 9 *Financial Instruments*
- Revised AASB 124 *Related Party Disclosures*
- AASB 1053 *Application of Tiers of Australian Accounting Standards* and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*
- AASB 2009-12 *Amendments to Australian Accounting Standards*
- AASB 2009-14 *Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement*
- AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
- AASB 2010-5 *Amendments to Australian Accounting* Standards
- AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets*
- AASB 2010-8 *Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets*
- AASB 2010-9 *Amendments to Australian Accounting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*

The application of these standards and amendments in future periods is not expected to have a material impact on the accounts of the group. The group has not elected to early adopt any pronouncements for the annual reporting period beginning 1 July 2010.

(iv) Historical cost convention

These financial statements have been prepared under the historical cost convention, except for certain assets which, as stated, are at fair value.

(v) Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

(vi) *Going Concern*

The financial report is prepared on a going concern basis despite current liabilities exceeding current assets by $86.2 million at 30 June 2011. The shortfall is partly due to vested employee benefits being classified as current. Ongoing quarterly equity injections from shareholding Ministers, increased funding through transport service contracts, adequate interest coverage and a declining gearing ratio provides adequate assurance of the group's status as a going concern.

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of the subsidiary of Queensland Rail Limited as at 30 June 2011 and the results of the subsidiary for the year then ended.

A subsidiary is an entity (including a special purpose entity) over which the group has the power to govern the financial and operating policies so as to obtain benefits from their activities, generally accompanying a shareholding of more than one-half of the voting rights.

A subsidiary is fully consolidated from the date on which control is transferred to the group.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

Accounting policies have been adopted consistently across the group.

Investment in the subsidiary is accounted for at cost in the financial records of the parent entity.

1 Summary of significant accounting policies (continued)

(c) Foreign currency and commodity transactions

(i) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (i.e. the functional currency). The financial statements are presented in Australian dollars, which is the group's functional and presentation currency.

(ii) Transactions and balances

Where the group is exposed to the risk of fluctuations in foreign exchange rates and commodity prices, it enters into financial arrangements to reduce this exposure. While the value of these financial instruments is subject to risk that market rates/prices may change subsequent to acquisition, such changes will generally be offset by opposite effects on the items being hedged.

Foreign currency transactions are initially translated into Australian currency using the exchange rate prevailing at the dates of the transactions.

At balance date, and upon finalisation of the hedge, the amounts payable and receivable in foreign currencies, as well as bank accounts denominated in foreign currencies, are translated to Australian currency at rates of exchange current at that date. Resulting exchange differences are brought to account in determining the profit or loss for the year, except when they are deferred in equity as qualifying cash flow hedges or where specific hedges are undertaken to hedge purchases, in which case the difference is deferred and included in the purchase cost.

(d) Rounding of amounts / Comparative restatements

The company is of a kind referred to in Class order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

Comparative information has been restated where necessary to be consistent with disclosures in the current reporting period.

(e) Derivatives and hedging activities

The group enters into derivative contracts to hedge exposures to foreign exchange as described in note 2. Derivative balances are disclosed in note 12.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

The group designates certain derivatives as hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

At inception, the group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been, and will continue to be, highly effective in offsetting future cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

(i) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset.

1 Summary of significant accounting policies (continued)

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(ii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement. Details of these derivatives are set out in note 12.

(iii) *Embedded derivatives*

Through the group's purchase and sale contracts, it is possible that embedded derivatives have been entered into. An embedded derivative will cause some or all of the cash flows of the purchase or sale contract (i.e. the host contract) to be modified by reference to a variable such as a foreign exchange rate or a commodity price if that variable is not closely related to the host contract.

Embedded derivatives are separated from the host contract and accounted for as a stand-alone derivative if the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract.

At balance sheet date, there were no embedded derivatives not closely related to the host contract.

(f) Fair value estimation

Refer to note 2(d) for details of fair value estimation.

(g) Joint ventures

(i) Jointly controlled operations
Where the group has jointly controlled operations, the proportionate interests in the assets, liabilities, revenues and expenses of a joint venture activity are incorporated in the financial statements under the appropriate headings.

Queensland Rail Limited had a 50% (2010: 50%) interest in the CityTrans jointly controlled operation with Brisbane City Council.

Queensland Rail Limited's share of the revenue generated from the operation was dependent on and agreed on an event by event basis taking into consideration the resources consumed by the event. Essentially each operator developed a charter price for the event which was then consolidated into a CityTrans quote for the event.

There were no assets jointly controlled by the operation.

CityTrans has ceased operating on 31 December 2010.

(h) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of indirect taxes. The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the group's activities as described below. Exchanges of goods and services of the same nature and value without any cash consideration are not recognised as revenues. Revenue is recognised for the major business activities as follows:

(i) Services revenue

Services revenue comprises revenue earned from Transport Service Contracts, the provision of passenger transport and track access.

In addition to revenue receivable from non related parties, the company receives revenue from Transport Service Contracts with the Translink Transit Authority and the Department of Transport and Main Roads as well as amounts from various State Government departments as direct reimbursement for concessions provided to senior citizens, pensioners and students.

1 Summary of significant accounting policies (continued)

Transport Service Contracts

Transport Service Contract revenue is accounted for as follows:

- Transport Service Contract (Rail Infrastructure) (TSC(RI))
  This contract is a multi-tiered arrangement which provides the company with funding to cover capital and operating costs for the Regional and South East Queensland networks.

  Under the contract, a stream of annuity-based funding is provided for operating and capital costs which have been previously incurred as well as the capital costs for enhancements to these existing systems. This annuity (which is paid in monthly instalments) is calculated on a seven year forecast of capital and operating costs for the respective systems under the TSC(RI). Capital costs are based on depreciating assets over a 30 year period.

- Transport Service Contract - South East Queensland Infrastructure Plan and Program (TSC - SEQIPP)
  Under the South East Queensland Infrastructure Plan and Program, Queensland Rail Limited is contracted to construct infrastructure at various locations throughout the South East Queensland network. The infrastructure constructed forms part of the group's property, plant and equipment which will generate revenue through the TSC (RI) contract. TSC - SEQIPP revenue is recognised on a systematic basis in accordance with the agreed rate of return of the SEQIPP assets.

- SEQIPP - Third party work
  Revenue is recognised based on the actual costs incurred for the work performed. The revenue is recognised when the work is complete and the costs incurred are taken to the income statement in the same financial period.

- Citytrain and Traveltrain Transport Service Contracts
  The group receives payments under the Transport Service Contract which defines passenger services to be provided by the group. Revenue is recognised on straight line basis based on the annual Transport Service Contract amount or periodic adjustments thereto.

Passenger Transport:

Other train passenger service revenue comprises ticket and travel related sales and is recognised as revenue once the service has been rendered.

Government concession revenue is recognised in the period in which the service is provided based on a predetermined formula as agreed with the local authority.

Track Access:

Revenue generated from rail network access is recognised as the services are provided and is calculated based on a number of operating parameters (such as tonnage hauled) applied to either regulator approved tariffs or negotiated access agreements.

(ii) Disposal of assets

The gain or loss on disposal of an asset is recognised at the date when the significant risks and rewards of ownership of the asset pass to the buyer, usually when the purchaser takes delivery of the asset. 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 and is recognised as other income or expenses in the income statement.

(iii) Interest income

Interest income is recognised based on the effective interest method.

(iv) Other revenue

Other revenue comprises revenue earned from the sale of goods and services. Revenue for sale of goods is recognised when the significant risks and rewards are passed to the buyer and the costs incurred, or to be incurred in respect of the transaction can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery.

1 Summary of significant accounting policies (continued)

(i) Investments and other financial assets

The group classifies its non-derivative financial assets based on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition. As at 30 June 2011, the group has only one type of non-derivative financial asset: loans and receivables.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in current trade and other receivables (note 10) and non-current receivables (note 14) in the balance sheet.

(ii) Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date which is the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

(iii) Subsequent measurement

Loans and receivables are carried at amortised cost using the effective interest method.

Details on the determination of the fair value of financial instruments are disclosed in note 2.

(iv) Impairment

The group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets are impaired. If there is evidence of impairment for any of the group's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in the income statement.

(j) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in the cost base of those assets and amortised to the income statement on a straight-line basis over the expected lives of the assets.

(k) Classification of expenditure

Items of expenditure in excess of $2,000 which are expected to provide future economic benefits are capitalised, with the exception of the purchase of office equipment and other items of a similar nature that provide limited quantifiable benefits. The threshold applies to all asset classes except capital spares which have a threshold of $20,000. If capital spares are under $20,000, the item is recorded in inventory. Expenditure not capitalised is treated as an operating expense in the period in which the expenditure is incurred.

(l) Cash and cash equivalents

For cash flow statement and presentation purposes, cash and cash equivalents include cash on hand, deposits held at call with financial institutions, and other short term highly liquid investments with original maturities of 3 months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

1 Summary of significant accounting policies (continued)

(m) Trade and other receivables

Trade receivables

Trade receivables are initially recorded at fair value less any allowance for uncollectible amounts. Trade receivables generally have credit terms ranging from 7 to 31 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired.

The amount of the impairment loss is recognised in the income statement within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

Other receivables

Other receivables include accruals, contractual receivables and GST receivable. Collectability is reviewed on an ongoing basis.

(n) Inventories

The value of inventories reported includes items held in centralised stores, workshops and infrastructure and rollingstock depots. Cost comprises cost of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition.

Inventories are valued at the lower of cost or net realisable value. Cost is determined predominantly on an average cost basis.

Items expected to be consumed after more than one year are classified as non-current.

The provision for inventory obsolescence is based on assessments by management of particular inventory classes and relates specifically to infrastructure and rollingstock maintenance items. The amount of the provision is based on a proportion of the value of damaged stock, slow moving stock and stock that has become obsolete during the reporting period.

The group has an agreement in place with QR Limited regarding inventory held in the QR Limited workshops on behalf of the group. The agreement includes both "call option" and "put option" clauses and expires on 30 June 2015. The group may exercise a call option upon expiry or termination of the agreement to acquire all or part of the dedicated inventory held by QR Limited at the expiry or termination date. QR Limited, may in turn, exercise a put option to require the group to acquire all or any part of the dedicated inventory held on behalf of the company at the expiry or termination date.

(o) Property, plant and equipment

Methodology for valuation of fixed assets

Property, plant and equipment is measured at cost less accumulated depreciation. Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction. Cost may also include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

The cost of fixed assets constructed by the group includes the cost of all materials used in construction, direct labour, site preparation, interest and foreign currency gains and losses incurred where applicable, and an appropriate proportion of variable and fixed overheads.

1 Summary of significant accounting policies (continued)

Gifted and Donated Assets

Assets acquired from government at no cost are measured at fair value as government grants. Fair value means the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Assets acquired from entities outside of government at no cost are recorded at nil value.

Land

Land is carried at cost. The *Transport Infrastructure Act 1994* stipulates that the group only retains ownership of its non-corridor land. As such, only non-corridor land is recorded in these accounts. Ownership of corridor land remains with the Department of Environment and Resource Management on behalf of the State. This land is leased to the Department of Transport and Main Roads and subsequently sub-leased to the group for no cost. The sub-lease term is for an initial term of 100 years with a renewal option for an additional 100 years.

Building, plant and equipment and rollingstock not leased

Building, plant and equipment and rollingstock not leased are carried at cost less accumulated depreciation. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably.

Owned infrastructure

Infrastructure assets are carried at cost and represent capitalised expenditures that are directly related to capital projects and may include materials, labour and equipment, in addition to an allocable portion of indirect costs that clearly relate to a particular project that will provide future economic benefits and remain within the control of the group.

Subsequent and maintenance costs

Costs related to repairs and maintenance activities are expensed when such repairs are performed. Subsequent costs are only capitalised when it is probable that future economic benefits associated with the item which flow to the group and the cost of the item can be measured reliably.

Leased property, plant and equipment

Leases of property, plant and equipment where the group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Assets held under finance leases are recorded at the lower of the net present value of the minimum lease payments or the fair value of the leased asset at the inception of the lease. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss on an effective interest rate basis.

During the period, the group finalised all of its rollingstock finance leases and took ownership of the leased assets.

Assets under construction

The cost of fixed assets constructed by the group includes the cost of all materials used in construction, direct labour, site preparation, interest and foreign currency gains and losses incurred where applicable, and an appropriate proportion of variable and fixed overheads.

Concept and pre-feasibility costs

Concept and pre-feasibility costs for items of depreciable property, plant and equipment are capitalised when it is likely that future economic benefits will be received through ownership of the asset. Concept and pre-feasibility costs incurred for projects where the group will not receive future economic benefit or when the decision is made to discontinue a project are expensed.

1 Summary of significant accounting policies (continued)

Lease capital charge

The property, plant and equipment of Queensland Rail Limited was legally owned and controlled by the former parent, QR Limited, prior to the transfer of these assets into the group on 30 June 2010. The finance cost of these assets was passed onto the group by QR Limited in the prior reporting period in the form of a lease capital charge. The lease capital charge was calculated as the weighted average cost of capital (WACC) multiplied by the written down value of the property, plant and equipment, used by the group, in QR Limited's fixed asset register. This lease capital charge ceased on 30 June 2010.

Depreciation recharge

In addition to the lease capital charge, QR Limited also passed on the entire depreciation expense associated with property, plant and equipment used by the company in the prior reporting period.

Depreciation and Amortisation

Buildings, plant and equipment, rollingstock and infrastructure are depreciated on a straight-line basis over the useful life net of the residual value. Motor vehicles are depreciated using the diminishing value basis (percentages range from 13.64% to 35.00%), with land and assets under construction not depreciated.

Assets controlled by the group under finance leases are amortised over the shorter of the useful lives of the asset or the lease term, as appropriate. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

Assets are depreciated or amortised from the date of acquisition, or, in respect of internally constructed or manufactured assets, from the time an asset is completed and held ready for use. Major spares purchased specifically for particular assets are capitalised and depreciated in line with standard default asset class lives.

Where assets have separately identifiable components that are subject to regular replacement, these components are assigned useful lives distinct from the asset to which they relate. Any expenditure that increases the originally assessed capacity or service potential of an asset is capitalised and the new depreciable amount is depreciated over the remaining life of the asset.

The depreciation and amortisation rates used during the year were based on the following range of useful lives:

- Buildings 10-40 years
- Rollingstock 8-40 years
- Plant and equipment 3-20 years
- Leased rollingstock 10-40 years
- Infrastructure* 5-100 years

The depreciation and amortisation rates are reviewed annually and adjusted if appropriate.

An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(q)).

* Longer life infrastructure includes bridges, tunnels and other long-lived civil works. Shorter life infrastructure includes telecommunications and security and surveillance equipment.

(p) Intangible assets

(i) IT development and software

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and service and direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated using the straight-line method over their useful life which varies from 3 to 7 years.

IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the company has an intention and ability to use the asset.

(q) Impairment of assets

Assets are reviewed for impairment annually to determine if there are indications that the carrying amount may not be recoverable.

1 Summary of significant accounting policies (continued)

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

Non-financial assets that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(r) Trade and other payables

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within the terms set by the supplier.

(s) Borrowings and borrowing costs

Debt is drawn from facilities with the Queensland Treasury Corporation (QTC) incorporating fixed and floating debt and is initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost, using the effective interest rate method. Interest is accrued and paid monthly.

In the prior reporting period, debt was transferred from QR Limited as part of the Transfer Notice. Arrangements were made prior to the transfer for the establishment of borrowing facilities with QTC.

Interest costs are calculated and advised by QTC in accordance with an agreed book rate methodology, which equates with amortised cost using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument.

Borrowing costs, which includes interest calculated using the effective interest method and administration fees, are expensed in the period in which they arise.

Borrowing costs which are directly attributable to the construction of material qualifying assets are capitalised. Qualifying assets are assets not funded from other sources with a cost of more than $1.0 million and which take a substantial period of time to prepare for intended use or sale. The rate used to determine the amount of borrowing cost to be capitalised is the QTC interest rate applicable to the entity's outstanding borrowings during the year, in this case 7.53% (2010: nil). During the year, interest costs of $3.3 million were capitalised (2010: nil).

The borrowings and the associated borrowing costs included in the qualifying assets were held and incurred by QR Limited in the prior period and by Queensland Rail Limited in the current period. QR Limited applied interest capitalisation to projects with a cost of $0.1 million in the prior period. Interest capitalised by QR Limited was included in the carrying values of assets transferred to the company via the Transfer Notice.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(t) Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(u) Employee benefits

(i) Wages and salaries, annual leave and leave loading
Liabilities for wages and salaries, including non-monetary benefits, annual leave and leave loading are recognised as current liabilities. These liabilities are in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled plus related on-costs.

1 Summary of significant accounting policies (continued)

(ii) Other long-term employee benefit obligations
Liabilities for long service leave where employees have completed the required period of service, or are entitled to pro rata payments are recognised as current liabilities at nominal values. The remaining unvested liabilities are included as non-current liabilities.

The liability for long service leave is measured using the expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future non-current payments are discounted using market yields at the reporting date on Commonwealth government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(iii) Retirement allowance
Retirement allowance is payable to employees who fulfil the following requirements:

- Employees who retire or who are paid according to Voluntary Employee Redundancy Scheme (VERS) or Medical Separation; and
- are not members of an accumulation super fund; and
- were employed prior to 1 February 1995.

These conditions continue to apply to employees who have transferred, or will transfer, from QR Limited and QR Network Pty Ltd to Queensland Rail Limited.

Liabilities for retirement allowance for employees who have fulfilled these requirements are recognised as current liabilities at nominal values. The current liability for retirement allowance is measured at expected future payments to be made in respect of services provided by qualifying employees. Expected non-current future payments are discounted using market yields at the reporting date on Commonwealth government bonds with maturities that match, as closely as possible, to the estimated future cash outflows. Consideration is given to expected future wage and salary levels, experience of the departure of qualifying employees and periods of service.

(iv) Sick leave
Sick leave is not provided for on the grounds that it is non-vesting and on average, no more than the annual entitlement is taken each year.

(v) Superannuation
Contributions are expensed as they are made.

The group pays an employer subsidy to the Government Superannuation Office in respect of employees who are contributors to either the Public Sector Superannuation (QSuper) scheme or State Service Superannuation.

Employer contributions to the Super Defined Benefit Fund are determined by the State Actuary. No liability is recognised for accruing superannuation benefits as this liability is held on a Whole of Government basis and reported in the Whole of Government financial statements. The group also makes superannuation guarantee payments into the QSuper Accumulation Fund (RailSuper) and QSuper Accumulation Fund (Contributory) administered by the Government Superannuation Office.

No liability/asset is recognised for the group's share of any potential deficit of the Super Defined Benefit Fund of QSuper. Refer to note 25 for further information on defined benefit liabilities.

(v) Income tax

The income tax expense or benefit for the period is the tax (payable) / receivable on the current period's taxable income based on the national income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and by unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability.

Deferred tax assets are recognised for deductible temporary differences, unused tax losses and tax credits, only if it is probable that future taxable amounts will be available to utilise those temporary differences, losses and credits.

1 Summary of significant accounting policies (continued)

Deferred tax liabilities and assets are not recognised for the temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity.

In the prior period, the QR Limited tax consolidation group applied a group allocation approach and accounted for their own current and deferred tax amounts. This method complied with Interpretation 1052 *Tax Consolidation Accounting* and AASB 112 *Income Taxes* with tax amounts measured as if the tax consolidated group were a stand-alone tax payer in its own right.

Under the terms of the tax funding agreement, the company compensated the QR Limited parent for any current tax payable assumed and was compensated by the QR Limited parent for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that were transferred to the QR Limited parent under tax consolidated legislation. The funding amounts were recognised as non current inter-company receivables or payables.

(i) Tax consolidation legislation
The group was a party to the QR Limited tax consolidation group to 30 June 2010. On 30 June 2010 Queensland Rail Limited exited the tax consolidation group.

On 6 October 2010 On Track Insurance Pty Ltd exited the QR Limited tax consolidation group.

The group has not elected to form a tax consolidated group for the 2010-11 financial year. For the year ended 30 June 2011 the group measures current and deferred tax amounts for Queensland Rail Limited and its controlled entity On Track Insurance Pty Ltd as individual stand-alone taxpayers, and aggregates the balances for disclosure.

(w) Goods and Services Tax (GST)

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

Trade receivables and trade payables in the balance sheet are shown inclusive of GST. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the balance sheet.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing or financing activities, which are disclosed as operating cash flow.

Queensland Rail Limited and On Track Insurance Pty Ltd were part of the QR Limited GST group until 30 September 2010. Any transactions with the QR Limited group to that date did not attract GST.

From 1 October 2010 Queensland Rail Limited and On Track Insurance Pty Ltd are individual entities recognised as a separate taxpayer for the purposes of GST. Transactions between these entities, and externally to third parties are subject to GST.

(x) Contributed equity

Ordinary shares are classified as equity.

Equity injections are treated as an increase in the value of issued shares.

(y) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the group, on or before the end of the financial year but not distributed at balance date.

The group recognises as payable those dividends declared on or before the reporting date. The entire amount remaining undistributed at reporting date is recognised.

1 Summary of significant accounting policies (continued)

(z) Leases

Leases on property, plant and equipment

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the group as lessee are classified as operating leases (note 31). Operating lease rental (net any incentive received from the lessor) is expensed on a straight-line basis over the lease term and is charged to the income statement.

Leases of property, plant and equipment where the group, as lessee, assumes substantially all the risks and benefits of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments.

The finance cost is charged to profit or loss on an effective interest rate basis.

The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability each period. The property, plant and equipment acquired under finance lease is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the group will obtain ownership at the end of the lease term.

Expected rental revenue from operating leases where the group is a lessor is recognised as income on a straight-line basis over the lease term (note 31).

Where a sale and lease back transaction has occurred, the lease is classified as either a finance lease or operating lease based on the factors described above.

(aa) Insurance

The group insures against risks which are largely uncontrollable, have significant or catastrophic consequences for assets and/or revenue, and the aggregate costs of which would exceed the limit of exposure the organisation is prepared to accept.

Insurance cover has accordingly been effected for a variety of such risks. Other areas of risk exposure are self-insured, including workers' compensation.

In the prior period, self-insurance and other underwriting activities were performed by Queensland Rail Limited's wholly-owned subsidiary, On Track Insurance Pty Ltd. On Track Insurance Pty Ltd was transferred from QR Limited, during the reporting period and will continue to provide cover for claims relating to events up until 30 June 2010 for both Queensland Rail Limited and the QR Limited group.

(ab) Environmental regulation

The group is subject to a variety of laws and regulations in the jurisdiction in which it operates or maintains land. Where remediation measures are probable and can be reliably measured, such costs incurred in complying with relevant laws and regulations are accounted for in accordance with the policy in note 1(t).

(ac) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the company. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the company recognises any minority interests in the acquiree either at fair value or at the minority interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any minority interests in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the company's share of the net identifiable assets acquired, is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

1 Summary of significant accounting policies (continued)

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(ad) Authorisation for issue

The financial statements are authorised for issue by the Chairman at the date of signing the directors' declaration.

(ae) Parent entity financial information

The financial information for the parent entity, Queensland Rail Limited, disclosed in note 37 has been prepared on the same basis as the consolidated financial statements, except as set out below:

(i) Investments in subsidiaries and joint venture entities

Investments in subsidiaries and joint venture entities are accounted for at cost in the financial statements of Queensland Rail Limited.

(ii) Tax consolidation legislation

For information regarding tax consolidation legislation, please refer to note1(v)(i).

2 Financial risk management

The group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects. The group uses derivative financial instruments such as foreign exchange contracts to hedge significant risk exposures. Trading for profit is strictly prohibited.

Financial risk management is being carried out by a central treasury department within the group (Group Treasury) under policies approved by the QR Limited Board of Directors. Group Treasury identified, evaluated and hedged financial risks in close co-operation with the company's operating units. The Board provided written principles for overall risk management, as well as written policies covering specific areas, such as mitigating foreign exchange, interest rate and credit risks, use of derivative financial instruments and investing excess liquidity. Compliance to this Board directive is reported to the Treasury Review Team on a regular basis. Any breaches of policy are reported to the Board. Policies approved by the QR Limited Board have been adopted by the group and are applicable to the financial statements of the group.

Sensitivity analysis has been used to help assess the financial risk of the group. In determining this sensitivity, the average of the 50 day historical volatility of the closing daily spot rate for three years, was used to adjust the forward curve. A three year period was chosen in line with the group's current hedging framework. For foreign currency the adjustment was applied to the US Dollar, the Euro, the Swedish Krona and the Japanese Yen.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from capital expenditures that are denominated in a currency that is not the entity's functional currency. The group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar (USD), the Euro (EUR), the Swedish Krona (SEK) and the Japanese Yen (JPY). The risk is measured using cash flow at risk.

The group has a Board Directive in place to manage foreign exchange risk. All foreign exchange risk is centrally managed by Group Treasury using approved derivative instruments held.

The group's foreign exchange risk management policy dictates the level of hedging to be undertaken within the Board approved limits. As at the balance sheet date, the Board approved trading range for the foreign exchange risk hedging is:

0 – 1 year: 80%-100%

1 – 2 years: 70%-100%

2 – 3 years: 60%-100%

The group designates forward foreign currency derivatives for hedging foreign exchange forecast transactions which are highly probable. At balance date, 81% (2010: nil) of foreign exchange hedges were designated for hedge accounting purposes.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity. When the cash flows occur, the group adjusts the initial measurement of the component recognised in the income statement by removing the related amount deferred in equity.

At balance date, these contracts recognised directly in equity were net losses of $1.6 million (2010: nil).

During the year ended 30 June 2011, losses of $2.2 million were removed from equity and included in the acquisition cost of capital and losses of $0.2 million were transferred to profit and loss.

2 Financial risk management (continued)

The group's exposure to foreign currency risk at the end of the reporting period was as follows:

	30 June 2011				30 June 2010			
	USD $'000	**EUR $'000**	**SEK $'000**	**JPY $'000**	USD $'000	EUR $'000	SEK $'000	JPY $'000
Forward exchange contracts - capital expenditure foreign currency (not qualifying for hedge accounting)	**-**	**-**	**(1,630)**	**-**	11,569	5,520	81,071	-
- capital expenditure foreign currency (qualifying for hedge accounting)	**2,827**	**10,511**	**5,800**	**672,929**	-	-	-	-
Net Exposure	**2,827**	**10,511**	**4,170**	**672,929**	11,569	5,520	81,071	-

Sensitivity

At 30 June 2011, had the Australian dollar weakened / strengthened by 20% against the USD / EUR / SEK / JPY with all other variables held constant, the group's post tax profit would have been $1.7 million higher / $0.1 million lower (2010: 19.09% / 14.83% / 14.52% / nil, $6.7 million higher / $4.8 million lower).

(ii) Cash flow and fair value interest rate risk
The group's interest rate risk arises from long term borrowings and cash at bank. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the group to fair value interest rate risk. The QTC has been authorised to manage the interest rate risk of the group within limits in accordance with the risk profile approved by the Board of Directors.

This is achieved by varying the proportion of the floating and fixed rate funding. The performance of this risk management is assessed against the benchmark duration of the debt portfolio.

At the end of the reporting period the group had the following exposure to variable rate borrowings:

	30 June 2011		30 June 2010	
	Weighted average interest rate %	**Balance $'000**	Weighted average interest rate %	Balance $'000
Bank overdrafts and bank loans	**6.1 %**	3,000,000	6.6 %	3,000,000
Net exposure to cash flow interest rate risk		3,000,000		3,000,000

2 Financial risk management (continued)

The following table summarises the sensitivity of the group's debt with QTC to interest rate risk.

30 June 2011	Carrying amount $'000	Interest rate risk -1% Profit $'000	Interest rate risk -1% Equity $'000	Interest rate risk +1% Profit $'000	Interest rate risk +1% Equity $'000
Client Specific Debt Pool	3,000,000	2,421	2,421	(2,421)	(2,421)
Total increase / (decrease)		2,421	2,421	(2,421)	(2,421)

30 June 2010	Carrying amount $'000	Interest rate risk -1% Profit $'000	Interest rate risk -1% Equity $'000	Interest rate risk +1% Profit $'000	Interest rate risk +1% Equity $'000
Client Specific Debt Pool	3,000,000	2,545	2,545	(2,545)	(2,545)
Total increase / (decrease)		2,545	2,545	(2,545)	(2,545)

(b) Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

The group does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the group, other than amounts owing by the State of Queensland. For wholesale customers without credit rating the company generally retains title over the goods sold until full payment is received. For some trade receivables the group may also obtain security in the form of guarantees, deeds of undertaking or letters of credit which can be called upon if the counterparty is in default under the terms of the agreement.

Policies are in place to ensure that sales of products and services are only made to customers with an appropriate credit history.

Derivative counterparties and cash transactions are limited to high credit quality financial institutions and are approved by the Board of Directors. The group has policies that limit the amount of credit exposure to any one financial institution. At the balance sheet date the group had the following credit exposure risk:

	2011 $'000	2010 $'000
Cash at bank and short-term bank deposits		
AA+	**152,809**	-
AA	**13,586**	-
	166,395	-
Derivative financial assets		
AA+	**-**	167
AA	**14**	-
A+	**1,615**	1,873
A	**-**	26
	1,629	2,066

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

2 Financial risk management (continued)

Liquidity risk management within the group ensures sufficient cash to meet short term and long term financial commitments. The group has policies in place to manage liquidity risk, including the establishment of an annual approved borrowing program and the availability of appropriate working capital facilities.

The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate cash flow was maintained.

Financing arrangements

The short-term borrowing arrangements with QTC are interest bearing, refer to note 2(a)(ii). The borrowing arrangements are subject to annual review. The total amount of credit unused as at 30 June 2011 was $450.0 million (2010: nil).

The amount of undrawn short-term borrowing facilities with QTC available as at reporting date is shown below:

	2011 $'000	2010 $'000
QTC short-term facilities		
Used at balance date	**-**	-
Unused at balance date	**450,000**	-
Total facilities	**450,000**	-

Long-term borrowings are sourced from the Queensland Rail Client Specific Pool subject to annual approval of the Queensland State Treasurer. The company may draw up to the amount of the approved borrowing program.

Borrowings are not secured.

The company has a credit standby arrangement with the Commonwealth Bank of Australia in the form of a bank overdraft totalling $2.0 million (2010: $2.0 million).

Maturity Analysis

The tables below analyse the Group's financial liabilities and net and gross settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

30 June 2011	Less than 1 year $'000	Between 1 and 5 years $'000	Over 5 years $'000	Total contractual cash flows $'000
Non-derivatives				
Non-interest bearing	220,352	-	-	220,352
Variable rate	25,160	-	-	25,160
Fixed rate	225,052	898,358	2,985,323	4,108,733
Total non-derivatives	470,564	898,358	2,985,323	4,354,245
Derivatives				
Gross settled (foreign exchange hedges)				
Assets				
- (inflow)	(4,689)	-	-	(4,689)
- outflow	3,022	-	-	3,022
Liabilities				
- (inflow)	(23,967)	(5,656)	-	(29,623)
- outflow	27,961	6,146	-	34,107
Total derivatives	2,327	490	-	2,817

2 Financial risk management (continued)

30 June 2010	Less than 1 year $'000	Between 1 and 5 years $'000	Over 5 years $'000	Total contractual cash flows $'000
Non-derivatives				
Non-interest bearing	89,732	-	-	89,732
Variable rate	-	-	-	-
Fixed rate	224,580	898,937	2,925,537	4,049,054
Total non-derivatives	314,312	898,937	2,925,537	4,138,786
Derivatives				
Gross settled (foreign exchange hedges)				
Assets				
- (inflow)	(16,642)	(8,028)	-	(24,670)
- outflow	15,216	7,279	-	22,495
Liabilities				
- (inflow)	(24,014)	(9,767)	-	(33,781)
- outflow	29,329	11,633	-	40,962
Total derivatives	3,889	1,117	-	5,006

(d) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and for disclosure purposes.

As of 1 July 2009, the Group has adopted the amendment to AASB 7 *Financial Instruments: Disclosures* which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)

(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3)

The following table presents the Group's assets and liabilities measured and recognised at fair value at 30 June 2011:

At 30 June 2011	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Financial assets at fair value through profit or loss				
Forward exchange contracts	-	1,629	-	1,629
Total assets	-	1,629	-	1,629
Liabilities				
Financial liabilities at fair value though profit or loss				
Forward exchange contracts	-	1,638	-	1,638
Derivatives used for hedging				
Forward exchange contracts	-	2,685	-	2,685
Total liabilities	-	4,323	-	4,323

2 Financial risk management (continued)

At 30 June 2010	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Financial assets at fair value through profit or loss				
Forward exchange contracts	-	2,066	-	2,066
Total assets	-	2,066	-	2,066
Liabilities				
Financial liabilities at fair value though profit or loss	-	-	-	-
Forward exchange contracts	-	6,878	-	6,878
Total liabilities	-	6,878	-	6,878

The fair value of financial instruments traded in active foreign exchange markets is based on observable market prices at the balance sheet date. The observable market price used for financial assets and liabilities held by the company for effective hedges is the average (i.e. "mid") forward rate at close of business on balance sheet date.

The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined using generally accepted valuation techniques. The company uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Observable market prices or dealer estimates for similar instruments are used to estimate fair value for long term debt for disclosure purposes. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of forward exchange contracts is determined using forward market rates at the end of the reporting period. These instruments are included in level 2 and comprise derivative financial instruments. In the circumstances where a valuation technique for these instruments is based on significant unobservable inputs, such instruments are included in level 3.

The carrying amounts of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the company for similar financial instruments. The fair value of current borrowings approximates the carrying amount, as the impact of discounting is not significant.

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated impairment of property, plant and equipment

The group tests annually whether property, plant and equipment has suffered any impairment, in accordance with the accounting policy stated in note 1(q). The recoverable amounts of cash generating units have been determined based on value in use calculations or fair value less costs to sell. Value in use calculations require the use of assumptions.

(ii) Provisions for insurance claims

The subsidiary company, On Track Insurance Pty Ltd, managed the self insurance activities of the QR Limited group to which both Queensland Rail Limited and On Track Insurance Pty Ltd belonged until 30 June 2010 and 6 October 2010 respectively. Actuarial assessments are undertaken annually to assess the value of the provision for any outstanding claims. Refer to note 1(aa) for further information.

Accrued insurance liabilities (includes Workers' Compensation) is based on a combination of management estimates and independent actuarial assessments performed as at year end. Refer to note 21 for more information.

(iii) Provision for land rehabilitation

There is uncertainty as to the amount that will ultimately be required to be expensed to remediate contaminated land. Refer to note 21 for more information.

(iv) Workers compensation self-insurance provision and long service leave provision

Independent actuarial valuations are used to estimate the provisions required for self-insured workers compensation.

The determination of the provisions required is dependent on a number of assumptions including;

- for workers compensation: the total future cost to finalise existing open claims, wage increases that will impact existing claims, inflation, and the amount of claims that have been incurred but not yet reported.
- for long service leave: expected wage increases, length of employee service and bond rates.

Refer to note 21 for more information.

(v) Taxation

The company's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be subject to a tax. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only when it is considered probable that they will be recovered. Recoverability is dependent on the generation of sufficient future taxable profits.

Refer to notes 18 and 24 for carrying amounts of deferred tax assets and deferred tax liabilities.

(vi) Depreciation

Management estimates the useful lives and residual values of property, plant and equipment based on the expected period of time over which economic benefits from use of the asset will be derived. Management review useful life assumptions on an annual basis having given consideration to variables including historical and forecast usage rates, technological advancements and changes in legal and economic conditions. Refer to note 1(o) for details of current depreciation rates used.

(vii) Hedge accounting

Management's judgement is necessary when determining whether a derivative financial instrument qualifies for hedge accounting, such as whether forecast transactions are highly probable as required by AASB 139 *Financial Instruments: Recognition and Measurement.* The assessment of whether forecast transactions are highly probable is judgmental and is subject to changes to the timing and magnitude of underlying purchases.

4 Correction of error and revision of estimates

In April 2011, the company undertook a detailed review of its employee benefits calculations and ascertained that some portions of the current benefit liabilities were incorrectly being discounted. This was a result of the reclassification of current and non-current employee entitlements in 2010 in line with the requirements of AASB 101 *Presentation of Financial Statements* which requires liabilities to be classified as current unless there is no possibility that the entity would have to pay out the provision within the next 12 months. In reclassifying these liabilities the company did not recalculate them.

AASB 119 *Employee Benefits* requires that all short-term employee benefit obligations should be measured on an undiscounted basis. As a consequence, the employee benefits expenses, liabilities, tax expense and deferred tax assets have been misstated since the period ending 30 June 2009.

The error has been corrected by restating each of the affected financial statement line items for the prior periods as follows:

30 June 2010	Audited $'000	Correction of error $'000	Restated $'000
Balance sheet (extract)			
Non-current assets			
Deferred tax assets	85,719	2,890	88,609
Current liabilities			
Other current liabilities	261,904	3,100	265,004
Non-current liabilities			
Other non-current liabilities	16,803	6,531	23,334
Net assets	**1,778,140**	**(6,741)**	**1,771,399**
Retained earnings	52,336	(6,741)	45,595
Total Equity	1,778,140	(6,741)	1,771,399
Income statement (extract)			
Employee benefits expense	312,630	2,411	315,041
Profit before income tax	**18,275**	**(2,411)**	**15,864**
Income tax expense	6,029	(724)	5,305
Profit for the year	**12,246**	**(1,687)**	**10,559**

4 Correction of error and revision of estimates (continued)

1 July 2009	Audited $'000	Correction of error $'000	Restated $'000
Balance Sheet (extract)			
Non-current assets			
Deferred tax assets	25,181	2,166	27,347
Current liabilities			
Other current liabilities	89,212	4,491	93,703
Non-current liabilities			
Other non-current liabilities	282,379	2,729	285,108
Net assets	**40,090**	**(5,054)**	**35,036**
Retained earnings	40,090	(5,054)	35,036
Total equity	**40,090**	**(5,054)**	**35,036**

There were no other material corrections of errors or revisions of estimates relating to the previous financial year.

5 Revenue from operations

	2011 $'000	2010 $'000
Transport service contract revenue	**1,436,487**	818,930
Passenger transport revenue*	**64,050**	61,049
Network access revenue**	**173,992**	-
Other revenue***	**159,828**	56,135
Interest revenue	**3,321**	358
	1,837,678	936,472

* Discount allowed was disclosed as Consumables in the 2009/10 accounts. Discount allowed has been reclassified to Passenger transport revenue in these accounts to better reflect its nature.

** There was no network access revenue recognised in the prior year as this revenue was still controlled by QR Limited at that stage.

*** Other revenue includes External construction works revenue $45.2 million (2010: $3.1 million), Telecommunication revenue $12.7 million (2010: nil), Leasing revenue $12.1 million (2010: $1.4 million), Workshop revenue $18.5 million (2010: $0.03 million), Airtrain revenue of $9.5 million (2010: $9.4 million) and Natural disaster funding of $26.5 million (2010: nil). The prior year includes $35.5 million inter-company sales of goods and services to members of the QR Limited group (2011: nil).

6 Other income

	2011 $'000	2010 $'000
Net unrealised gain on foreign currency derivatives not qualifying as hedges	**3,590**	-
Government grants	**1,777**	386
	5,367	386

7 Expenses

	2011 $'000	2010 $'000
Profit before income tax includes the following specific expenses:		
Depreciation recharge		
Depreciation recharge from former parent *	-	117,221
Total Depreciation Recharge	-	117,221
Depreciation and amortisation		
Depreciation		
Buildings	**16,730**	-
Plant and equipment	**16,242**	-
Infrastructure	**130,444**	-
Rollingstock	**83,991**	-
Total depreciation	**247,407**	-
Amortisation		
Lease fit out	**1,613**	-
Rollingstock under finance leases	**822**	-
Software (note 17)	**1,631**	-
Total amortisation	**4,066**	-
Total depreciation and amortisation	**251,473**	-
Finance costs		
Interest and finance charges paid/payable	**224,539**	-
Total finance costs	**224,539**	-
Lease capital charge		
Lease capital charge from former parent *	-	135,012
Total lease capital charge	-	135,012
Other expenses		
Rental expenses relating to leases	**54**	(27)
Net commodity losses recognised in profit before income tax for the year	**12**	283
Provision for inventory obsolescence	**623**	484
Research and development costs	**115**	1
Settlement of litigation expenses	**-**	3
Impairment losses - financial assets		
Trade receivables	**78**	13
Other assets	**337**	-
Net foreign exchange losses recognised in profit before income tax for the year	**5,573**	-
Net loss on disposal of property plant and equipment	**1,475**	-
Other expenses	**2,571**	742
Total other expenses	**10,838**	1,499
*Superannuation expenses***		
Defined benefit superannuation expense	**19,883**	8,028
Defined contribution superannuation expense	**37,843**	15,462
Total superannuation expenses	**57,726**	23,490

* Assets utilised by Queensland Rail Limited during the prior reporting periods up to 30 June 2010 were legally owned by QR Limited, with a lease capital charge and a depreciation charge processed to reflect the implied ownership of the assets. The asset base used in 2010 relates to the passenger operations for the full year prior to the disposal of property, plant and equipment from QR Limited on 30 June 2010.

** Superannuation contributions were disclosed as other expenses in the 2009/10 accounts. These costs have been reclassified to employee benefits expense in these accounts to better reflect their nature.

8 Income tax expense

	2011 $'000	2010 $'000
(a) Income tax expense		
Current tax	**61,868**	10,145
Deferred tax	**(12,824)**	(5,385)
Adjustments for current tax of prior periods	**-**	545
Recognition of unused revenue tax loss*	**(34,801)**	-
Recognition of unused capital tax loss*	**(2,185)**	-
	12,058	5,305
Deferred income tax expense included in income tax expense comprises:		
(Increase) / decrease in deferred tax assets (note 18)	**(12,538)**	(5,254)
Increase / (decrease) in deferred tax liabilities (note 24)	**(286)**	(131)
	(12,824)	(5,385)

* The company received approval from the National Tax Equivalents Regime to utilise the unused revenue and capital tax losses previously belonging to QR Limited. These losses were not carried forward by QR Limited when it privatised in the current reporting period.

	2011 $'000	2010 $'000
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	**161,322**	15,864
Tax at the Australian tax rate of 30% (2010: 30%)	**48,397**	4,759
Tax effect of amounts which are non-deductible (taxable) in calculating taxable income:		
Entertainment	**8**	1
Research and development	**(240)**	-
Inter-company eliminations	**889**	-
Investment allowances	**(2)**	-
Other	**1**	-
Non-assessable income	**(9)**	-
Adjustments for current tax of prior periods	**-**	545
Recognition of unused revenue tax loss	**(34,801)**	-
Recognition of unused capital tax loss	**(2,185)**	-
	(36,339)	546
Total income tax expense	**12,058**	5,305

	2011 $'000	2010 $'000
(c) Amounts recognised directly in equity		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity		
Net deferred tax - debited / (credited) directly to equity (notes 18 and 24)	**476**	-
	476	-

	2011 $'000	2010 $'000
(d) Tax losses		
Value of QR Limited's tax losses and tax credits used to offset current tax obligations under the tax funding agreement	**-**	(35,632)
Potential tax benefit @ 30%	**-**	(10,690)

(e) Tax consolidation legislation

For information regarding tax consolidation legislation, please refer to note 1(v)(i).

9 Current assets - Cash and cash equivalents

	2011 $'000	2010 $'000
Cash on hand	**131**	125
Bank balances	**13,586**	30
Short term investments	**152,809**	-
Trust monies	**6**	13
Total cash and cash equivalents	**166,532**	168
Less: Trust monies	**(6)**	(13)
Balance as per statement of cash flows	**166,526**	155

(a) Interest rate risk exposure

The group’s exposure to interest rate risk is discussed in note 2.

10 Current assets - Trade and other receivables

	2011 $'000	2010 $'000
Trade receivables	**176,638**	8,044
Provision for impairment of receivables (a)	**(99)**	(40)
Net trade receivables	**176,539**	8,004
Transport service contracts	**146,927**	126,008
Receivables - SEQIPP works	**13,024**	32,612
Other receivables	**7,857**	11,369
	167,808	169,989
	344,347	177,993

(a) Impaired trade receivables

As at 30 June 2011, current trade receivables of the group with a nominal value of $0.10 million (2010: $0.01 million) were impaired. The amount of the provision was $0.10 million (2010: $0.04 million). It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

	2011 $'000	2010 $'000
1 to 3 months	**8**	1
3 to 6 months	**4**	2
Over 6 months	**84**	7
	96	10

Past due but not impaired

As at 30 June 2011, trade receivables of $6.7 million (2010: $0.6 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2011 $'000	2010 $'000
3 to 6 months	**1,013**	414
over 6 months	**5,713**	214
	6,726	628

Movements in the provision for impairment of receivables are as follows:

	2011 $'000	2010 $'000
Opening balance	**40**	35
Provision for impairment recognised during the year	**78**	13
Receivables written off during the year as uncollectible	**(19)**	(8)
	99	40

The creation and release of the provision for impaired receivables has been included in the income statement. Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

10 Current assets - Trade and other receivables (continued)

(b) Other receivables

These amounts generally arise from transactions outside the usual operating activities of the company. These mainly consist of accrued revenues of $4.7 million (2010: nil) and a Springfield Road SEQ project receivable not invoiced for $nil (2010: $8.6 million).

(c) Foreign exchange and interest rate risk

Information about the company's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is discussed in note 2.

(d) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. The group does hold collateral as security in the form of bank guarantees, refer to note 23(b). For more information on the risk management policy of the company and the credit quality of the entity's trade receivables, refer to note 2.

11 Current assets - Inventories

	2011 $'000	2010 $'000
Raw materials and stores - at cost	**42,832**	55,973
Work in progress - at cost	**224**	-
Less: provision for inventory obsolescence	**(297)**	-
Inventory at lower of cost or net realisable value	**42,759**	55,973

(a) Inventory expense

Inventory recognised as expense during the year ended 30 June 2011 amounted to $107.9 million (2010: $43.4 million). Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2011 amounted to $1.37 million (2010: $0.04 million).

12 Derivative financial instruments

	2011 $'000	2010 $'000
Current assets		
Forward exchange contracts - at fair value through profit & loss (a)(ii)	**1,629**	1,368
Total current derivative financial instrument assets	**1,629**	1,368
Non-current assets		
Forward exchange contracts - at fair value through profit & loss (a)(ii)	**-**	698
Total non-current derivative financial instrument assets	**-**	698
Total derivative financial instrument assets	**1,629**	2,066
Current liabilities		
Forward exchange contracts - cash flow hedges (a)(i)	**2,232**	-
Forward exchange contracts - at fair value through profit & loss (a)(ii)	**1,638**	5,142
Total current derivative financial instrument liabilities	**3,870**	5,142
Non-current liabilities		
Forward exchange contracts - cash flow hedges (a)(i)	**453**	-
Forward exchange contracts - at fair value through profit & loss (a)(ii)	**-**	1,736
Total non-current derivative financial instrument liabilities	**453**	1,736
Total derivative financial instrument liabilities	**4,323**	6,878

Derivatives belonging to the group were transferred from QR Limited by 30 June 2010. On that date, all derivative instruments and the rights and obligations associated with those instruments, held by QR Limited on behalf of the company, which were contracted with counterparties were novated to the QTC.

(a) Instruments used by the group

The group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in foreign exchange rates in accordance with the company's financial risk management policies (refer to note 2).

(i) Forward exchange contracts - cash flow hedges

The group is a party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in foreign exchange rates. The group enters into forward exchange contracts to hedge against identifiable currency risks associated with highly probable forecast capital expenditure transactions. The cash flows are expected to occur at various dates within the next three years.

(ii) Forward exchange contracts - at fair value through profit or loss

The group holds forward foreign exchange contracts which are economic hedges but do not satisfy the requirements of hedge accounting. These contracts are subject to the same risk management policies as all other derivative contracts, see note 2 for details. These forward foreign exchange contracts hedging capital expenditure forecast transactions are classified as at fair value through profit or loss.

(b) Credit risk exposures

Credit risk on derivative contracts is minimised as counterparties were approved by the Board of Directors and were recognised financial intermediaries with acceptable credit ratings determined by a recognised ratings agency, in accordance with a credit risk management framework. Information about the group's exposure to credit risk and foreign exchange is provided in note 2.

13 Current assets - Other current assets

	2011 $'000	2010 $'000
Prepayments	**26,863**	403
	26,863	403

14 Non-current assets - Receivables

	2011 $'000	2010 $'000
Loan receivable	**27,099**	-
	27,099	-

(a) Impaired receivables and receivables past due

None of the non-current receivables are impaired or past due but not impaired.

(b) Fair values

The fair values and carrying values of non-current receivables are as follows:

	2011		2010	
	Carrying amount $'000	**Fair value $'000**	Carrying amount $'000	Fair value $'000
Other receivables	**27,099**	**27,099**	-	-

The carrying value of non-current receivables represents the best approximation of fair value.

(c) Risk exposure

Information about the group's exposure to credit risk, foreign exchange and interest rate risk is provided in note 2.

15 Non-current assets - Inventories

	2011 $'000	2010 $'000
Raw materials and stores	**19,458**	10,763
Less: provision for inventory obsolescence	**-**	(2,148)
	19,458	8,615

16 Non-current assets - Property, plant and equipment

	Asset under construction $'000	Land $'000	Leased property $'000	Buildings $'000	Plant and equipment $'000	Rollingstock $'000	Leased rollingstock $'000	Infrastructure $'000	Total $'000
Year ended 30 June 2010									
Opening net book amount	-	-	-	-	-	-	-	-	-
Transfer from former parent and its subsidiary	854,543	131,253	-	300,304	79,853	861,852	18,159	2,928,139	5,174,103
Closing net book amount	854,543	131,253	-	300,304	79,853	861,852	18,159	2,928,139	5,174,103
At 30 June 2010									
Cost	854,543	134,257	-	369,508	150,767	1,129,704	35,979	3,174,348	5,849,106
Accumulated depreciation and impairment losses	-	(3,004)	-	(69,204)	(70,914)	(267,852)	(17,820)	(246,209)	(675,003)
Net book amount	854,543	131,253	-	300,304	79,853	861,852	18,159	2,928,139	5,174,103
Year ended 30 June 2011									
Opening net book amount	854,543	131,253	-	300,304	79,853	861,852	18,159	2,928,139	5,174,103
Transfer from former parent and its subsidiary	2,000	9,461	-	7,722	2,811	230,154	448	88,845	341,441
Additions	581,373	911	-	285	5,630	-	-	2,009	590,208
Transfers between asset classes	(1,098,346)	4,302	21,052	77,253	23,870	257,538	(17,785)	716,195	(15,921)
Disposals	-	(7,933)	-	(2,150)	(1,182)	(386)	-	(1,962)	(13,613)
Impairment expense	-	-	-	-	(90)	(247)	-	-	(337)
Depreciation/ amortisation expense	-	-	(1,613)	(16,730)	(16,242)	(83,991)	(822)	(130,444)	(249,842)
Closing net book amount	339,570	137,994	19,439	366,684	94,650	1,264,920	-	3,602,782	5,826,039
At 30 June 2011									
Cost	339,570	139,806	21,052	453,194	180,041	1,685,058	-	3,983,123	6,801,844
Accumulated depreciation / amortisation and impairment losses	-	(1,812)	(1,613)	(86,510)	(85,391)	(420,138)	-	(380,341)	(975,805)
Net book amount	339,570	137,994	19,439	366,684	94,650	1,264,920	-	3,602,782	5,826,039

The property, plant and equipment of the group were transferred from the former parent company, QR Limited and its wholly owned subsidiary, QR Network Pty Ltd, on 30 June 2010. Prior to this, depreciation relating to assets used by the company was recharged from QR Limited. Further assets were transferred to the group via Transfer Notice on 31 August 2010.

The property, plant and equipment transferred on 30 June 2010 to the group included specific assets which management subsequently transferred back to QR Limited and QR Network Pty Ltd in the second Transfer Notice on 31 August 2010. The group had legal title and ownership of the assets during this 2 month period. The written down value of this property, plant and equipment was $7.5 million.

(a) Non-current assets pledged as security

No assets have been pledged as security by the company.

(b) Impairment

An impairment assessment was undertaken prior to 30 June 2011. Impairment was recognised due to a slight decrease in the salvage values of the group's already impaired tourist and heritage assets.

17 Non-current assets - Intangible assets

	Computer software* $'000	Total $'000
Year ended 30 June 2011		
Opening net book amount**	-	-
Transfers	15,921	15,921
Amortisation expense	(1,631)	(1,631)
Closing net book amount	14,290	14,290
At 30 June 2011		
Cost	15,921	15,921
Accumulated amortisation and impairment	(1,631)	(1,631)
Net book amount	14,290	14,290

* Software includes capitalised development costs being an internally generated intangible asset.

** The group did not hold any non-current intangible assets during the prior reporting period.

An impairment assessment was undertaken prior to 30 June 2011. No impairment was recorded against intangible assets for the period.

18 Non-current assets - Deferred tax assets

	2011 $'000	2010 $'000	1 July 2009 $'000
The balance comprises temporary differences attributable to:			
Accrued expenses	**9,613**	231	58
Capital losses	**2,185**	-	-
Provisions	**81,472**	72,984	26,712
Superannuation contributions	**583**	314	141
Unearned revenue	**9,216**	14,672	-
Cash flow hedges	**476**	-	-
Various adjustments - temporary differences	**272**	408	436
Total deferred tax assets	**103,817**	88,609	27,347

	2011 $'000	2010 $'000
Movements:		
Opening balance	**88,609**	27,347
Credited / (charged) to the consolidated income statement (note 8)	**12,538**	5,254
Transfer from former parent	**155**	56,008
Cash flow hedge	**476**	-
Increase / (utilisation) of carried forward tax losses	**(146)**	-
Recognition of unused revenue tax loss*	**34,801**	-
Recognition of unused capital tax loss*	**2,185**	-
Utilisation of revenue tax loss	**(34,801)**	-
Closing balance at 30 June	**103,817**	88,609
Deferred tax assets to be recovered within 12 months	**-**	-
Deferred tax assets to be recovered after more than 12 months	**103,817**	88,609

* The company received approval from the National Tax Equivalents Regime to utilise the unused revenue and capital tax losses previously belonging to QR Limited. These losses were not carried forward by QR Limited when it privatised in the current reporting period.

19 Non-current assets - Other non-current assets

	2011 $'000	2010 $'000
Prepayments	**23,563**	53,941
	23,563	53,941

20 Current liabilities - Trade and other payables

	2011 $'000	2010 $'000
Trade payables	**227,402**	74,339
Dividend payable	**84,429**	-
Trusts	**5**	8
Other payables	**18,105**	15,385
	329,941	89,732

(a) Risk exposure

Information about the company's exposure to foreign exchange risk is provided in note 2.

21 Liabilities - Provisions

	2011 $'000	2010 $'000
Current provisions		
Provision for insurance claims (a)	**39,040**	-
Litigation and workers' compensation provision (b)	**7,784**	7,784
Make good provision (d)	**-**	2,223
	46,824	10,007
Non-current provisions		
Litigation and workers' compensation provision (b)	**16,943**	14,347
Land rehabilitation provision (c)	**14,402**	18,078
Make good provision(d)	**3,263**	-
	34,608	32,425
Total provisions	**81,432**	42,432

(a) Provision for Insurance Claims

The provision for insurance claims is raised for insurance claims external to the group as recorded by On Track Insurance Pty Ltd, the group's internal captive insurance provider for claims up until 30 June 2010. The provision represents the estimated requirement to settle all third party claims against the group as determined by an actuarial assessment.

(b) Litigation and workers' compensation

Provision is made for the estimated liability for workers' compensation and litigation claims. Claims are assessed separately for common law, statutory and asbestos claims. The outstanding liability is determined after factoring future claims inflation and discounting future claim payments. Estimates are made based on the average number of claims and average claim payments over a specified period time. Claims Incurred But Not Reported (IBNR) are also included in the estimate. Claims are expected to be paid over a period exceeding more than one year.

(c) Land rehabilitation provision

A provision of $18.1 million was transferred from the former parent, QR Limited, in the prior period, in accordance with the Transfer Notice. The Transfer Notice includes the liabilities and obligations associated with fixed assets listed in the schedules in this Notice. This provision recognises the estimated costs to remediate contaminated land in accordance with the company's constructive obligations per the environmental sustainability policy. These estimated costs have arisen as a result of past events.

The provision for land rehabilitation is the present value of management's best estimate of the expenditure required to settle the land rehabilitation present obligation at the reporting date. The provision is based on an estimated long term inflation rate of 4.5%. To measure the present value of the estimated costs, a discount rate of 5.5% was used, based on the 15 year Commonwealth bond rate.

(d) Make good provision

A provision of $2.2 million was transferred from the former parent, QR Limited in the prior period, in accordance with the Transfer Notice. The Transfer Notice provides for the inclusion of all obligations and liabilities associated with contracts and leases listed in this Notice. This represents the anticipated costs of the future restoration of leased office premises. Make good requirements vary for different properties. The provision includes future cost estimates associated with the restoration of office fixtures and fittings to original condition; removal of all property and equipment to return the premises to a vacant shell, and making good any damage caused by their removal; re-altering any alterations to return to its original lay-out; and repairing and making good any damage which may be caused to land adjoining the premises as a result of carrying out structural work or other improvements. The provision has been calculated based on an assumption of make good costs.

21 Liabilities - Provisions (continued)

(e) Movements in provisions

Movements in each class of provision during the financial year are set out below:

	Provision for insurance claims $'000	Litigation and workers' compensation provision $'000	Land rehabilitation provision $'000	Make good provision $'000	Total $'000
2011					
Current and Non-current					
Carrying amount at start of year	-	22,131	18,078	2,223	42,432
- additional provisions recognised	162	11,878	262	2,878	15,180
- unused amounts released	(3,843)	(2,779)	(4,932)	(1,865)	(13,419)
- unwind discount	-	-	994	93	1,087
Amounts used during the year	(6,005)	(6,503)	-	(66)	(12,574)
Transfer from former parent	48,726	-	-	-	48,726
Carrying amount at end of year	39,040	24,727	14,402	3,263	81,432

22 Current liabilities - Other current liabilities

	2011 $'000	2010 $'000	1 July 2009 $'000
Income in advance (a)	**41,383**	55,951	4,001
Other current liabilities	**2,689**	4,650	6,993
Employee benefits (b)	**216,685**	204,404	82,709
	260,757	265,005	93,703

(a) Income in advance

Income in advance represents amounts received, predominantly through Transport Service Contracts, as prepayment for the development of rail infrastructure. These amounts are deferred and earned over the term of their respective agreements. Also included in income in advance are lease incentives received in advance and amortised to the income statement over the life of the related lease.

(b) Employee benefits

	2011 $'000	2010 $'000	2009 $'000
Annual leave	**61,337**	55,246	24,283
Long service leave	**138,308**	133,561	52,227
Other	**17,040**	15,597	6,199
	216,685	204,404	82,709

The provision for long service leave covers all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. This portion of the provision is presented as current, since the group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

Other liabilities includes payroll tax and retirement allowances.

23 Non-current liabilities - Borrowings

	2011 $'000	2010 $'000
Unsecured		
Queensland Treasury Corporation borrowings	**3,000,000**	3,000,000
Total non-current borrowings	**3,000,000**	3,000,000

(a) Financing arrangements

For details of the group's financing arrangements please refer to note 2(c).

(b) Fair value

The carrying amounts and fair values of current and non-current borrowings and off-balance sheet guarantees at balance date are:

	At 30 June 2011		At 30 June 2010	
	Carrying amount $'000	**Fair value $'000**	Carrying amount $'000	Fair value $'000
On-balance sheet (i)				
Non-traded financial liabilities				
Borrowings	**3,000,000**	**3,067,843**	3,000,000	3,075,581
	3,000,000	**3,067,843**	3,000,000	3,075,581
Off-balance sheet (ii)				
Unrecognised financial assets				
Third party guarantees	**-**	**291,131**	-	284,000
Bank guarantees	**-**	**133,925**	-	93,691
Insurance company guarantees	**-**	**3,102**	-	3,102
Unrecognised financial liabilities				
Bank guarantees	**-**	**(30,075)**	-	(28,676)
	-	**398,083**	-	352,117

(i) On-consolidated balance sheet

The fair value of borrowings, as disclosed in the notes to the accounts, is determined by reference to the published price quotation in an active market and/or by reference to pricing models and valuation techniques. It reflects the value of the debt of the group repaid in full at balance date. As it is the intention of the corporation to hold its borrowings for their full term, no adjustment provision is made in these accounts.

(ii) Off-consolidated balance sheet

The group holds guarantees related to contracts that were transferred from QR Limited in accordance with the Transfer Notice on 30 June 2010. The group is in the process of having these guarantees reissued in accordance with the terms and conditions of those contracts.

(c) Risk exposures

Information about the entity's exposure to interest rate and foreign currency fluctuations is provided in note 2.

24 Non-current liabilities - Deferred tax liabilities

	2011 $'000	2010 $'000
The balance comprises temporary differences attributable to:		
Accrued income	**23**	-
Consumables and spare parts	**4,899**	9,904
Property, plant and equipment	**365,764**	353,145
Prepayments	**179**	41
Foreign exchange gains	**1,077**	-
Various adjustments - temporary difference	**-**	-
Total deferred tax liabilities	**371,942**	363,090

	2011 $'000	2010 $'000
Movements:		
Opening balance	**363,090**	228
Net transfers from former parent	**9,138**	362,993
Charged/(credited) to the consolidated income statement (note 8)	**(286)**	(131)
Closing balance at 30 June	**371,942**	363,090
Deferred tax liabilities to be settled within 12 months	**-**	-
Deferred tax liabilities to be settled after more than 12 months	**371,942**	363,090

The June 2010 deferred tax liability balance included $1.0 million relating to property, plant and equipment transferred on 30 June 2010 to the group which was subsequently transferred back to QR Limited and QR Network Pty Ltd in the second Transfer Notice on 31 August 2010.

25 Non-current liabilities - Other non-current liabilities

	2011 $'000	2010 $'000	1 July 2009 $'000
Income in advance (a)	**33,885**	9,963	-
Inter-company loans*	**-**	-	280,794
Employee Benefits			
Long Service Leave (b)	**10,110**	8,155	2,268
Retirement Allowance	**4,594**	5,217	2,046
	48,589	23,335	285,108

* Amounts owed to QR Limited, the former parent company of Queensland Rail Limited, and QR Limited subsidiaries. These amounts were forgiven on 30 June 2010 in accordance with the Transfer Notice.

(a) Income in advance

Income in advance represents amounts received, predominantly through Transport Service Contracts, as prepayment for the development of rail infrastructure. These amounts are deferred and earned over the term of their respective agreements. Also included in income in advance are lease incentives received in advance and amortised to the income statement over the life of the related lease.

(b) Long service leave

The non-current provision for long service leave covers all conditional entitlements where employees have not completed the required period of service and are not entitled to pro-rata payments. This portion of the provision is presented as non-current, since the group does not have an obligation to settle the provision within the next 12 months.

Defined benefit superannuation obligations

The group makes contributions to the State Public Sector Superannuation Scheme (QSuper) on behalf of its employees concerning superannuation. QSuper is an employer-sponsored fund, with the major employer being the State of Queensland. There are a number of membership categories in QSuper, which are either accumulation or defined benefits in nature.

The Treasurer has ultimate responsibility for funding payments to defined benefit members. The State has in place funding arrangements designed to meet the defined benefit obligations for its members. The Treasurer has the ability to require employers to pay any amounts needed to meet these benefits. Generally, this is handled through the regular standard fortnightly contribution paid by every employer, which has been determined on the advice of the State Actuary. No directions varying this contribution have been received by the group to balance date.

The State Actuary makes a recommendation to the Treasurer on the standard employer contribution rate required to fund the normal range of benefits at the conclusion of each triennial actuarial investigation. The most recent actuarial investigation was completed in 2010 and the actuary’s recommendation to leave the employer contribution rate unchanged was approved by the Treasurer. This investigation is undertaken on QSuper as a whole and is not segregated into different employers or occupations.

26 Contributed equity

	2011 $	2010 $
(a) Share capital		
Ordinary shares		
Fully paid at the beginning of the year	**1,725,803,922**	100
Equity injection	**322,870,000**	-
Distribution of capital from former parent	**314,497,912**	1,725,803,822
Total contributed equity	**2,363,171,834**	1,725,803,922

(b) Movements in ordinary share capital:

Date	Details	Number of shares	Issue price	$
1 July 2009	Opening balance	100	$1.00	100
	Distribution of capital from former parent	-		1,725,803,822
30 June 2010	Balance	100		1,725,803,922
1 July 2010	Opening balance	100		1,725,803,922
	Distribution of capital from former parent	-		314,497,912
	Equity injection	-		322,870,000
30 June 2011	Balance	100		2,363,171,834

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

(d) Capital risk management

The group's objectives when managing capital are to safeguard its ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The shareholding Ministers advise the appropriate methodology in determining the dividend payable annually.

The group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'borrowings' and 'trade and other payables' as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

The group's gearing ratios at 30 June 2011 and 30 June 2010 are as follows:

	2011 $'000	2010 $'000
Total borrowings	**3,329,941**	3,089,732
Less: cash and cash equivalents	**(166,532)**	(168)
Net debt	**3,163,409**	3,089,564
Total equity	**2,472,491**	1,771,399
Total capital	**5,635,900**	4,860,963
Gearing ratio	**56 %**	64 %

The group is also required by QTC to maintain an Earnings Before Interest and Tax (EBIT) Interest Coverage of greater than 1.25:1, except where the total debt to capital is greater than 70%, in which case the EBIT Interest Coverage must be at least 2:1. The group has complied with this requirement for both 2011 and 2010.

27 Reserves and retained earnings

	2011 $'000	2010 $'000
(a) Reserves		
Hedging reserve - cash flow hedges	(1,111)	-
	(1,111)	-

	2011 $'000	2010 $'000
Movements:		
Hedging reserve - cash flow hedges		
Opening balance	-	-
Fair value (losses) taken to equity	(3,971)	-
Deferred tax	1,191	-
Fair value losses transferred to income statement - no longer highly effective	180	-
Deferred tax	(54)	-
Fair value losses matured and capitalised	2,204	-
Deferred tax	(661)	-
Balance 30 June	(1,111)	-

(b) Retained earnings

Movements in retained earnings were as follows:

	2011 $'000	2010 $'000
Opening balance	45,595	35,036
Profit for the year	149,264	10,559
Dividends	(84,429)	-
Balance 30 June	110,430	45,595

28 Dividends

	2011 $'000	2010 $'000
(a) Ordinary shares		
Dividend of 844,290 dollars per share (2010: nil) was declared by the Board for the year ended 30 June 2011:		
Fully franked portion	**-**	-
Unfranked portion	**84,429**	-

No dividends were declared or paid in the prior year periods. The dividend in respect of the current year is expected to be paid in December 2011.

29 Key management personnel disclosures

(a) Directors and specified executives

Compensation and other terms of employment for the specified executives are formalised in service agreements. Details of directors' terms of appointment and compensation details together with the major provisions of the service agreements for specified executives relating to compensation are as follows:

(i) Directors

Queensland Rail Limited

Directors	Position	Appointment Term	Expiry Date
S Gregg	Chairman	3 years 3 months	30 September 2013
M Hayes	Director	3 years 3 months	30 September 2013
Dr L Keliher AO	Director	2 years 3 months	30 September 2012
M McArthur	Director	3 years 3 months	30 September 2013
D McMillan-Hall	Director	2 years 3 months	30 September 2012
D Petie	Director	2 years 3 months	30 September 2012
J Schafer	Director	3 years 3 months	30 September 2013

All Queensland Rail directors were appointed to the Queensland Rail Limited Board, as a candidate Government Owned Corporation, on 4 June 2010. On transition to full Government Owned Corporation status on 1 July 2010, all Queensland Rail Limited directors resigned and were reappointed.

On Track Insurance Pty Ltd

Directors	Position	Appointment Term	Expiry Date
D Petie	Chairman	No set appointment term	No expiry date
R Ashton	Director	No set appointment term	No expiry date
J Benstead	Managing Director	No set appointment term	No expiry date
D Drew	Managing Director	No set appointment term	Resigned 25 February 2011
G Pringle	Director	3 years	28 February 2014

29 Key management personnel disclosures (continued)

(ii) Specified executives

Queensland Rail Limited

Specified executives	Appointment Term	Expiry Date
Chief Executive Officer	3 years	30 June 2013
Chief Financial Officer	3 years	30 June 2013
Chief Network Officer	3 years	30 June 2013
Chief Operations Officer	3 years	30 June 2013
Chief Customer Officer	3 years	30 June 2013
Chief Human Resources Officer	3 years	30 June 2013
Chief Strategy & Corporate Services Officer	3 years	30 June 2013
Chief Communications Officer	3 years	30 June 2013
Chief Safety & Environment Officer	3 years	30 June 2013
Deputy Chief Operations Officer	3 years	30 June 2013
General Counsel / Company Secretary[1]	This role is currently being performed on an acting basis	

[1] This role was performed by two officers during the year. The second officer is performing the role on an acting basis until a permanent appointment is made in 2011-12.

The Government Owned Corporations Act (1993) specifies the appointment of interim and permanent senior executives. On 1 July 2010, all specified executives above were appointed permanently by the Board.

The above are the key executives representing the group. These executives provide advice in relation to strategy and future direction of the group under the business model adopted. The subsidiary entity does not have any senior executives who are involved in setting strategy or future direction for the entity and no subsidiary executives are disclosed above for this reason.

(b) Key management personnel compensation

Directors' remuneration and terms of appointment are set by Governor in Council at the time of a director's appointment. Directors' remuneration is subsequently reviewed annually and set by shareholding Ministers.

The People and Organisation Committee of the company reviewed the compensation and other terms of employment of the specified executives up to 30 June 2011, having regard to performance against goals set at the start of the year, relevant comparative information and independent expert advice.

Directors are not entitled to termination payments on termination of their period of service.

Termination of an executive can be made by the group to the specified executive either with notice, without notice or due to the incapacity of the specified executive. Termination by notice can be made by the specified executive or the group at any time by either party giving to the other 3 months written notice of termination.

The specified executive is entitled to 12 weeks salary where termination occurs on the agreed termination date. When the termination occurs prior to the termination date (assuming no gross misconduct), the group will pay the specified executive the following:

- a service payment equal to the greater of 4 weeks salary or 2 weeks salary per year of continuous service with the group up to a maximum 52 weeks salary, and
- a separation payment equal to 20% of the salary that the specified executive would have earned had the employment continued from the day after the notice period ceased until the termination date.

In the prior reporting period, no compensation was paid to the board members in fulfilling their roles as directors of Queensland Rail Limited.

29 Key management personnel disclosures (continued)

Additionally, the specified executives identified in the prior reporting period were also key management personnel in the former parent company, QR Limited. These executives each had the authority and responsibility to plan, direct and control the operations of Queensland Rail Limited. They did not receive any remuneration directly in relation to their capacity as key management personnel of Queensland Rail Limited. Therefore no amounts in relation to compensation have been disclosed in the comparative period.

Details of the compensation of each specified director and executive are as follows:

	2011 $'000	2010 $'000
Short-term benefits	**4,184**	-
Post-employment benefits	**875**	-
Long-term benefits	**172**	-
	5,231	-

Short-term benefits includes cash salary and at risk performance incentives (for specified executives only), fees and non-monetary benefits. Non-monetary benefits represent the value of Exempt and Reportable Fringe Benefits for the respective Fringe Benefits Tax year ending 31 March.

(i) Directors of Queensland Rail Limited and On Track Insurance Pty Ltd

2011		Short-term benefits		Post-employment benefits		
Specified directors		Director fees $'000	Non-monetary benefits $'000	Super-annuation $'000	Retirement benefits $'000	Total $'000
S Gregg	Chairman	108	-	-	-	108
M Hayes	Director	35	-	3	-	38
Dr L Keliher AO	Director	35	-	3	-	38
M McArthur	Director	35	-	3	-	38
D McMillan-Hall	Director	36	-	3	-	39
D Petie[1]	Director	41	-	4	-	45
J Schafer	Director	35	-	3	-	38
R Ashton	Director	4	-	-	-	4
Total		329	-	19	-	348

[1]D Petie is a director of the Queensland Rail Limited Board and Chairman of the On Track Insurance Pty Ltd Board.

As an executive of QR Limited, former parent company, G Pringle did not receive additional remuneration in his capacity as director of On Track Insurance Pty Ltd.

As executives of Queensland Rail Limited, J Benstead and D Drew did not receive additional remuneration in their capacity as directors of On Track Insurance Pty Ltd.

29 Key management personnel disclosures (continued)

(ii) Specified executives of the company

2011	Short-term benefits		Post-employment benefits		Long-term benefits	
Function	Cash salary and fees $'000	Non monetary benefits $'000	Super-annuation $'000	Retirement benefits $'000	Long service leave $'000	Total $'000
Chief Executive Officer	600	8	61	-	-	669
Chief Financial Officer	339	6	41	-	-	386
Chief Network Officer	365	6	44	-	7	422
Chief Operations Officer	407	7	34	-	-	448
Chief Customer Officer	345	7	41	-	-	393
Chief Human Resources Officer	266	7	32	-	-	305
Chief Strategy & Corporate Services Officer	289	7	37	-	-	333
Chief Communications Officer	262	14	32	-	-	308
Chief Safety & Environment Officer	272	7	33	-	-	312
Deputy Chief Operations Officer	298	7	30	-	-	335
General Counsel / Company Secretary[1]	291	45	21	450	165	972
Total	3,734	121	406	450	172	4,883

[1]The duties of the General Counsel / Company Secretary have been performed by two separate officers during this term. At reporting date, the Acting Head of Legal and Governance, whilst performing the duties of the General Counsel / Company Secretary, did not receive compensation directly.

	2011 $'000	2010 $'000
Aggregate performance bonus compensation		
Aggregate performance bonus compensation	**4,823**	-
Aggregate compensation (including performance bonus compensation) paid / payable to employees to whom a performance payment is paid or payable	**132,318**	-
	137,141	-

	2011	2010
Number of employees to whom a performance bonus is paid or payable	**1,337**	-

The following categories of employees are eligible for performance based at-risk incentive bonus compensation:

- specified executives;
- other executives;
- salaried employees; and
- award employees.

Performance bonus compensation paid to specified executives is granted upon approval by shareholding Ministers. Performance bonus compensation paid to other employees is granted upon approval by the Chief Executive Officer or in accordance with a subsidiary agreement. The amount of the compensation is determined by performance against key performance indicators set at the start of the year for employees or conditions of a subsidiary agreement for work units.

29 Key management personnel disclosures (continued)

(c) Transactions with directors and key management personnel

A number of directors and specified executives of Queensland Rail Limited are also directors of other corporations that have transacted with Queensland Rail Limited, namely:

- D Petie was a director of Manidis Roberts Pty Ltd for the full financial year.
- The Acting Head of Legal and Governance was a director of Franklin Athanasellis Cullen Pty Ltd for the full financial year.

The directors do not believe they have the individual capacity to control or significantly influence the financial and operating policies of Queensland Rail Limited or the other corporations in their dealings with each other. Those corporations are therefore not considered to be related entities.

The specified executive has the individual capacity to control or significantly influence the financial and operating policies of another corporation but not Queensland Rail Limited.

During the reporting period, R Ashton, director of On Track Insurance Pty Ltd, was compensated for legal advice provided to the same company. The legal fees for R Ashton is summarised below.

Also during the reporting period, specified executives were compensated for carrying out key management personnel services.

All figures displayed below are exclusive of GST.

	2011 $'000	2010 $'000
Legal fees - R Ashton	**5**	-
Consultancy fees - specified executives	**191**	-
	196	-

R Ashton provided legal services to On Track Insurance Pty Ltd in the prior year. This entity, however, was not a subsidiary of Queensland Rail Limited in the prior year and therefore disclosure is not required.

30 Contingencies

The group had contingencies at 30 June 2011 in respect of:

(a) Contingent liabilities

Issues relating to common law claims and product warranties are dealt with as they arise. There were no material contingent liabilities requiring disclosures in the financial statements other than as set out below.

Litigation

A number of common law claims are pending against the group. Provisions are taken up for some of these exposures based on the Board's determination, and are included as such in note 21.

Guarantees and letters of credit

For information about guarantees and letters of credit given by the group, refer to note 23(b).

Deed of Cross Guarantee

Neither the company nor its subsidiary were a party to a deed of cross guarantee at reporting date.

In the prior period, the company was a party to a deed of cross guarantee with its former parent, QR Limited and some of its subsidiaries. No deficiencies of assets existed in any of these companies.

A Deed of Revocation was signed on 28 June 2010 and lodged with the Australian Securities and Investments Commission on 5 July 2010. Queensland Rail Limited was revoked from the QR Limited Deed of Cross Guarantee. The revocation became operative on 6 January 2011 as it was given 6 months to become effective to allow for potential claims from creditors.

The companies party to the QR Limited deed of cross guarantee included QR Limited, QR Intermodal Pty Ltd, Logistics Australasia Pty Ltd, Golden Bros. Group Pty Ltd, CRT Group Pty Ltd, Interail Australia Pty Ltd, Australian Rail Pty Ltd, Australia Eastern Railroad Pty Ltd, Australia Western Railroad Pty Ltd, Australian Railroad Group Employment Pty Ltd, QR Network Pty Ltd and Queensland Rail Limited.

(b) Contingent assets

For information about guarantees given to the group, refer to note 23(b).

31 Commitments

(a) Capital commitments

Capital expenditure contracted for at reporting date but not recognised as liabilities is payable as follows (excluding GST):

	2011 $'000	2010 $'000
Property, plant and equipment		
Within one year	**241,549**	287,596
Later than one year but not later than five years	**327,420**	55,720
Later than five years	**-**	-
	568,969	343,316

(b) Lease commitments

(i) Operating leases

	2011 $'000	2010 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows (excluding GST):		
Within one year	**13,291**	5,277
Later than one year but not later than five years	**38,984**	33,104
Later than five years	**40,311**	56,126
	92,586	94,507

The above commitments flow primarily from operating leases of property. These leases, with terms mostly ranging from one to ten years, generally provide Queensland Rail Limited with a right of renewal at which times the lease terms are renegotiated. The lease payments comprise a base amount, while the property leases also contain a contingent rental, which is based on either the movements in the Consumer Price Index or another fixed percentage as agreed between the parties.

(c) Lease commitments receivable: where the company is the lessor

Some fixed assets are leased to tenants with rents payable monthly, minimum lease payments (excluding GST) not recognised in the financial statements are receivable as follows:

	2011 $'000	2010 $'000
Within one year	**11,426**	4,248
Later than one year and not later than five years	**18,698**	12,232
Later than five years	**57,154**	66,752
	87,278	83,232

(d) Other operating commitments payable

Other operating expenditure contracted for at reporting date but not recognised as liabilities is payable as follows (excluding GST):

	2011 $'000	2010 $'000
Within one year	**54,457**	-
Later than one year and not later than five years	**129,578**	-
Later than five years	**-**	-
	184,035	-

32 Related party transactions

(a) Subsidiaries

Interests in subsidiaries are set out in note 34.

(b) Key management personnel

Disclosures relating to key management personnel are set out in note 29.

(c) Transactions with related parties

The following transactions occurred with related parties:

	2011 $'000	2010 $'000
Sale of goods and services to commonly controlled entities	-	4,296
Sale of goods and services to former parent	-	31,171
Purchase of goods and services from commonly controlled entities	-	146,873
Purchase of goods and services from former parent	-	100,747

* Subsequent to the disposal of the Queensland Rail Limited's operations, all outstanding amounts payable/receivable to/from the former parent QR Limited and its subsidiaries have been forgiven in accordance with the Transfer Notice on 30 June 2010.

(d) Loans to / from related parties

	2011 $'000	2010* $'000
Loans from former parent		
Beginning of the year	-	288,950
Loans advanced	-	126,044
Loans forgiven by former parent	-	(414,994)
End of year	-	-
Loans from formerly commonly controlled entities		
Beginning of the year	-	176,596
Loans advanced	-	159,947
Loans forgiven by former parent	-	(336,543)
End of year	-	-

* Subsequent to the disposal of the Queensland Rail Limited's operations, all outstanding loans payable/receivable to/from the former parent, QR Limited, and its subsidiaries were forgiven in accordance with the Transfer Notice on 30 June 2010.

(e) Terms and conditions

All other transactions were made on normal commercial terms and conditions and at market rates with the exception of the subsidiary. Loans with the subsidiary have no fixed terms and are non-interest bearing.

Trade between QR Limited and its subsidiaries was based on commercial internal agreements up until 30 June 2010.

32 Related party transactions (continued)

(f) Transactions and outstanding balances with State of Queensland controlled entities

The company is limited by shares with all shares held by the shareholding Ministers on behalf of the state of Queensland.

The company transacted with other State of Queensland controlled entities during the year as set out below:

	Note	2011* $'000	2010* $'000	Nature of transaction
Cash and cash equivalent	9	152,809	-	QTC short term investments.
Trade and other receivables	10	267,056	127,740	Transport services contracts and other accounts receivable.
Current tax liabilities		26,921	-	Current tax payable
Other current assets	13	25,101	-	Prepaid tax
Other non-current assets	19	18,384	43,485	Prepaid tax
Borrowings	23	3,000,000	3,000,000	Unsecured loan facility (QTC).
Trade and other payables	20	112,494	-	Interest payable, accounts payable and dividend payable.
Other current liabilities	22	3,445	4,147	Clearing accounts.
Contributed equity	26	637,368	1,725,804	Equity contributions and capital distributions.
Revenue	5	1,599,640	840,139	Sales, community service obligation, government concessions, interest revenue and transactions with QR National Limited.
Interest expense	7	223,447	-	QTC loan interest (includes financing cost).
Other expense	7	93,852	20,528	Payroll tax, income tax, audit fees, licences and permits, consumables and transactions with QR National Limited.
Dividends paid	28	-	-	Dividend paid.

* Subsequent to the disposal of the Queensland Rail Limited's operations, and up until the listing of QR National, the former parent QR Limited and its subsidiaries were treated as State of Queensland controlled entities.

33 Business combination

Current period

(a) Summary of acquisition

As a result of a Transfer Notice, effective on 6 October 2010, Queensland Rail Limited acquired 100% of the issued share capital of On Track Insurance Pty Ltd. On Track Insurance Pty Ltd was a captive insurance company for QR Limited, Queensland Rail Limited's former parent company, and it will continue to provide cover only for existing claims up until 30 June 2010 and subsequent claims relating to events that occurred prior to 30 June 2010.

Consideration for the shares in On Track Insurance Pty Ltd was in the form of Queensland Rail Limited assuming responsibility for a portion of QR Limited's loan from On Track Insurance Pty Ltd as required under the Transfer Notice.

There were no cash flows associated with this acquisition and all assets and liabilities were deemed to be at fair value in the books of the acquiree.

Details of the purchase consideration, the net assets and liabilities acquired are as follows:

	$'000
Purchase consideration	
Liabilities incurred	5,000
Total purchase consideration	5,000
Fair value of net identifiable assets acquired (refer to (b) below)	5,000

(b) Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

	2011 Acquiree's carrying amount $'000	2011 Fair value $'000
Trade debtors and others receivables	13,834	13,834
Other current assets	9	9
Receivables	59,418	59,418
Deferred tax assets	155	155
Trade and Other Payables	(42)	(42)
Other current liabilities	(44)	(44)
Provisions	(68,330)	(68,330)
Net identifiable assets acquired	5,000	5,000

Prior period

Queensland Rail Limited made no acquisitions in 2010.

34 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary in accordance with the accounting policy described in note 1(b).

Name of entity	**Country of incorporation**	**Class of shares**	**Equity holding**	
			2011 %	2010 %
On Track Insurance Pty Ltd	Australia	Ordinary	**100**	-

Queensland Rail Limited acquired 100% of the issued share capital of On Track Insurance Pty Ltd on 6 October 2010.

35 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the group:

	2011 $'000	2010 $'000
(a) Audit services		
Auditor-General of Queensland		
Audit and review of financial reports	**671**	175
Total auditors' remuneration	**671**	175

36 Reconciliation of profit after income tax to net cash inflow from operating activities

	2011 $'000	2010 $'000
Profit for the year	**149,264**	10,559
Depreciation and amortisation	**251,472**	-
Net impairment of non-current assets	**337**	-
Amortisation of prepaid access facilitation charges	**(1,998)**	-
Losses on sale of non-current assets	**1,475**	-
Unrealised gain on derivatives	**(3,590)**	-
Impairment of trade receivables	**78**	13
Inventory obsolescence	**623**	485
Change in operating assets and liabilities		
(Increase) / decrease in trade debtors	**(162,683)**	(57,839)
(Increase) / decrease in inventories	**1,748**	(3,180)
(Increase) / decrease in other operating assets	**22,632**	(5,303)
Increase / (decrease) in trade creditors	**187,261**	(164,136)
Increase / (decrease) in other liabilities	**47,239**	431,731
Increase / (decrease) in other provisions	**(9,805)**	-
Net cash inflow from operating activities	**484,053**	212,330

37 Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2011 $'000	2010 $'000
Balance sheet		
Current assets	**582,383**	235,905
Non-current assets	**5,992,533**	5,325,966
Total assets	**6,574,916**	5,561,871
Current liabilities	**627,573**	369,887
Non-current liabilities	**3,482,287**	3,420,586
Total liabilities	**4,109,860**	3,790,473
Net Assets	**2,465,056**	1,771,398
Shareholders' equity		
Contributed equity	**2,357,368**	1,725,804
Hedging reserves	**(1,111)**	-
Retained earnings	**108,799**	45,594
Total Equity	**2,465,056**	1,771,398
Profit for the year	**147,634**	10,559
		-
Total comprehensive income	**146,523**	10,559

(b) Guarantees entered into by the parent entity

The parent entity has not provided financial guarantees in respect of bank overdrafts and loans of subsidiaries.

In addition, there is no cross guarantee given by Queensland Rail Limited to On Track Insurance Pty Ltd.

(c) Contingent liabilities of the parent entity

Issues relating to common law claims and product warranties are dealt with as they arise. There were no material contingent liabilities requiring disclosures in the financial statements except as outlined in note 30. All provisions except provision for insurance claims relate to the parent entity.

(d) Contractual commitments for the acquisition of property, plant or equipment

As at 30 June 2011, the parent entity had contractual commitments. For information about these commitments please see note 31. All commitments outlined in this note relate to the parent entity.

(e) Prior period adjustments

The above parent entity results are inclusive of the prior period adjustments outlined in note 4. All adjustments outlined in that note relate to the parent entity.

38 Events occurring after the reporting period

No matters or circumstances have arisen since the end of the financial year which significantly affected, or may significantly affect the operations of the group, the results of those operations, or the state of affairs of the group in future financial years.

Directors' declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 6 to 69 are in accordance with the *Corporations Act 2001*, including:
   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
   (ii) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2011 and of its performance for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

(c) note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the directors.

S Gregg
Chairman

Brisbane, QLD
29 August 2011

Independent Auditor's Report

To the Members of Queensland Rail Limited

Report on the Financial Report

I have audited the accompanying financial report of Queensland Rail Limited, which comprises the balance sheet as at 30 June 2011, the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entity it controlled at the year's end.

Directors' Responsibility 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*, and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards.*

Auditor's responsibility

My responsibility is to express an opinion on the financial report based on the audit. The audit was conducted in accordance with the *Auditor-General of Queensland Auditing Standards*, which incorporate the Australian Auditing Standards. Those standards require compliance with relevant ethical requirements relating to audit engagements and that the audit is planned and performed to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity'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 obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

The *Auditor-General Act 2009* promotes the independence of the Auditor General and all authorised auditors. The Auditor-General is the auditor of all Queensland 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.

In conducting the audit, the independence requirements of the *Corporations Act 2001* have been complied with. I confirm that the independence declaration required by the *Corporations Act 2001,* which has been given to the directors of Queensland Rail Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Independent Auditor's Report
(continued)

Opinion

In my opinion -

(a) the financial report of Queensland Rail Limited is in accordance with the *Corporations Act 2001*, including -

  (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2011 and of their performance for the year ended on that date; and

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

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Other Matters - Electronic Presentation of the Audited Financial Report

This auditor's report relates to the financial report of Queensland Rail Limited for the year ended 30 June 2011. Where the financial report is included on Queensland Rail Limited's website the company's directors are responsible for the integrity of Queensland Rail Limited's website and I have not been engaged to report on the integrity of Queensland Rail Limited's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements or otherwise included with the financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.

These matters also relate to the presentation of the audited financial report in other electronic media including CD Rom.

G G POOLE FCPA
Auditor-General of Queensland

AUDITOR GENERAL
30 AUG 2011
OF QUEENSLAND

Queensland Audit Office
Brisbane

QueenslandRail

Contact us

Queensland Rail welcomes your feedback and suggestions as it assists us to improve the services we provide. For assistance or information concerning Queensland Rail please:

- visit our website at queenslandrail.com.au
- call us on 13 16 17
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