

Financial Statements for the Year Ended 30 June 2017

Below Rail Services Provided by Queensland Rail

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Purpose and Scope of the Financial Statements

These are the Below Rail Financial Statements of Queensland Rail (ABN 68 598 268 528) and its subsidiaries, Queensland Rail Limited (ABN 71 132 181 090) (QRL) and On Track Insurance Pty Ltd (ABN 18 095 032 670) (OTI).

Queensland Rail is a statutory authority established under the *Queensland Rail Transit Authority Act 2013 (Qld)* (QRTA Act) and is a statutory body for the purposes of the *Financial Accountability Act 2009 (Qld)* and the *Statutory Bodies Financial Arrangements Act 1982 (Qld)*.

Queensland Rail's functions are detailed in section 9 of the QRTA Act. Queensland Rail discharges its statutory functions through its wholly owned subsidiary Queensland Rail Limited. Queensland Rail Limited does not employ any personnel, but owns all non-employee related assets and contracts. It performs the role of rail transport operator under the *Transport (Rail Safety) Act 2010*.

Section 250 (1)(b) of the *Queensland Competition Authority Act 1997 (QCA Act)*, declares the use of rail transport infrastructure for which Queensland Rail, or a successor, assign or subsidiary of Queensland Rail is the rail manager, as a declared service under part 5, division 2 of the QCA Act.

Clause 5.3.1 of the *Queensland Rail's Access Undertaking 1* requires the annual publication of financial statements for Below Rail Services provided by Queensland Rail.

Below Rail Services are the activities associated with the provision and management of rail infrastructure, including the construction, maintenance and renewal of rail infrastructure assets, and the network management services required for the safe operation of Train Services on the rail infrastructure, including Train Control Services and the implementation of safeworking procedures. For the purposes of these financial statements, Below Rail Services excludes passenger stations and associated facilities as they are not required to enable the operation of freight train services.

In order to prepare financial statements of the Below Rail Services, there are certain adjustments to exclude non-below rail transactions that have been accounted for within the Queensland Rail legal entity. This means the Below Rail Services financial statements do not fully reflect the statutory financial position of Queensland Rail.

These financial statements are prepared in accordance with the Costing Manual, and take the form of a Statement of Earnings before Interest and Tax, a Statement of Assets and a Statement of Investments, and separately identify the West Moreton, Mt Isa and North Coast Regions from the rest of the network.

These financial statements report only those revenues, expenses, assets and investments that are identified, attributed and allocated to the provision of Below Rail Services by Queensland Rail.

BELOW RAIL SERVICES PROVIDED BY QUEENSLAND RAIL

STATEMENT OF EARNINGS BEFORE INTEREST AND TAX

	FOR THE YEAR ENDED 30 JUNE 2017					FOR THE YEAR ENDED 30 JUNE 2016				
	West Moreton Region \$000's	Mount Isa Region \$000's	North Coast Region \$000's	Rest of Network \$000's	Total Below Rail \$000's	West Moreton Region \$000's	Mount Isa Region \$000's	North Coast Region \$000's	Rest of Network \$000's	Total Below Rail \$000's
REVENUE										
Access charges - coal	28,674	-	-	7,173	35,847	45,442	-	29	22,759	68,230
Access charges - other	2,068	83,475	48,194	129,684	263,421	1,632	92,793	58,060	127,386	279,871
Transport Service Contracts	2,177	-	124,793	411,030	538,000	1,336	-	127,247	407,934	536,517
Contributions from developers	288	-	-	-	288	288	-	-	-	288
Other	1,004	1,360	3,984	6,007	12,355	1,281	1,379	3,951	4,418	11,029
Total Revenue	34,211	84,835	176,971	553,894	849,911	49,979	94,172	189,287	562,497	895,935
OPERATING EXPENSES										
Infrastructure maintenance	22,291	39,852	90,395	227,775	380,313	33,131	45,050	86,070	199,355	363,606
Derailment / collision / flood repairs	620	2,719	4,060	3,247	10,646	221	5,811	957	2,500	9,489
Train operations management	4,030	4,254	13,357	22,807	44,448	3,658	4,944	12,939	20,960	42,501
Other expenses	2,724	3,892	10,915	35,928	53,459	3,326	4,035	12,305	19,254	38,920
Corporate overhead	1,325	2,548	5,198	11,314	20,385	2,258	4,064	8,279	15,505	30,106
Depreciation and amortisation	7,953	6,560	25,254	102,145	141,912	8,349	6,417	29,226	106,963	150,955
Total Expenses	38,943	59,825	149,179	403,216	651,163	50,943	70,321	149,776	364,537	635,577
EARNINGS BEFORE INTEREST AND TAX	(4,732)	25,010	27,792	150,678	198,748	(964)	23,851	39,511	197,960	260,358

The above Statement of Earnings before Interest and Tax should be read in conjunction with the accompanying notes.

STATEMENT OF ASSETS

	AS AT 30 JUNE 2017					AS AT 30 JUNE 2016				
	West Moreton Region \$000's	Mount Isa Region \$000's	North Coast Region \$000's	Rest of Network \$000's	Total Below Rail \$000's	West Moreton Region \$000's	Mount Isa Region \$000's	North Coast Region \$000's	Rest of Network \$000's	Total Below Rail \$000's
CURRENT ASSETS										
Receivables	5,664	13,713	(1,294)	5,113	23,196	4,664	14,321	5,481	5,141	29,607
Inventories	2,779	5,344	10,902	23,729	42,754	3,430	6,174	12,577	23,553	45,734
Other	240	495	1,017	2,298	4,050	396	713	1,451	2,718	5,278
Total Current Assets	8,683	19,552	10,625	31,140	70,000	8,490	21,208	19,509	31,412	80,619
NON-CURRENT ASSETS										
Fixed assets										
Property (Land and Buildings)	6,292	5,355	25,105	103,882	140,634	6,859	9,670	22,523	105,144	144,196
Plant and Equipment	9,948	10,997	25,543	89,059	135,547	13,747	8,807	20,942	70,820	114,316
Infrastructure										
Permanent Way	162,189	177,918	535,216	2,218,860	3,094,183	154,519	169,233	516,187	2,105,507	2,945,446
Other	12,882	18,836	89,091	621,896	742,705	11,268	18,266	94,673	538,440	662,647
Assets under Construction	21,379	14,678	44,882	252,127	333,066	9,333	7,224	32,690	320,780	370,027
	212,690	227,784	719,837	3,285,824	4,446,135	195,726	213,200	687,015	3,140,691	4,236,632
Intangibles	689	1,324	2,877	12,559	17,449	1,051	1,842	4,092	13,027	20,012
Inventories	449	863	1,761	3,832	6,905	489	879	1,792	3,355	6,515
Other	284	546	1,114	2,426	4,370	354	637	1,297	2,428	4,716
Total Non-Current Assets	214,112	230,517	725,589	3,304,641	4,474,859	197,620	216,558	694,196	3,159,501	4,267,875
Total Assets	222,795	250,069	736,214	3,335,781	4,544,859	206,110	237,766	713,705	3,190,913	4,348,494

The above financial statements should be read in conjunction with the accompanying notes.

STATEMENT OF INVESTMENTS

	FOR THE YEAR ENDED 30 JUNE 2017					FOR THE YEAR ENDED 30 JUNE 2016				
	West Moreton Region \$000's	Mount Isa Region \$000's	North Coast Region \$000's	Rest of Network \$000's	Total Below Rail \$000's	West Moreton Region \$000's	Mount Isa Region \$000's	North Coast Region \$000's	Rest of Network \$000's	Total Below Rail \$000's
Expenditure on fixed assets	27,852	22,114	46,618	300,238	396,822	25,490	19,754	51,463	377,496	474,203

The above financial statements should be read in conjunction with the accompanying notes.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Basis of Preparation

These financial statements represent a special purpose financial report prepared specifically to meet the information needs of the Queensland Competition Authority (QCA) and access seekers who may seek access to rail infrastructure for the purpose of operating trains. Accordingly this special purpose financial report may not be suitable for any other purpose.

These financial statements have been prepared in accordance with:

- (a) Clause 5.3.1 of the *Queensland Rail's Access Undertaking 1*.
- (b) The methodology and format set out in the Costing Manual for preparing Queensland Rail's 2016-17 regulatory accounts as approved by QCA on 16 June 2017. Refer to Note 3 for the details of the Costing Manual.

The recognition and measurement requirements of the Australian Accounting Standards, the *Financial and Performance Management Standard 2009*, the Queensland Treasury *Financial Reporting Requirements for Queensland Government Agencies* and other authoritative pronouncements of the Australian Accounting Standards Board applicable to Queensland Rail's general purpose financial statements reported in Queensland Rail's Financial Report for the year ended 30 June 2017 are applicable in the preparation of these statements, unless specifically stated otherwise. For a summary of the significant accounting policies used, refer to Notes to the general purpose financial statements of Queensland Rail for the year ended 30 June 2017.

Statement of Earnings before Interest and Tax

The source of information for the Statement of Earnings before Interest and Tax for the 2016-17 year are the accounting records of Queensland Rail. In preparing the Statement of Earnings before Interest and Tax these accounts have been adjusted for this special purpose reporting by the addition of revenue net off (see Note 8), and treatment of internal charges as revenue (see Note 7).

Statement of Assets

The source of information for the Statement of Assets as at 30 June 2017 comprises the asset accounts and values from the balance sheet of Queensland Rail. The deferred tax assets reported on the balance sheet of Queensland Rail has been offset against deferred tax liabilities as at 30 June 2017 and the resulting net liability excluded from the Statement of Assets.

Statement of Investments

The Statement of Investments has been based on internal capital expenditure reports, and relates to those capital projects which have incurred capital expenditure during the year ended 30 June 2017, with assets either commissioned during the year or remaining in the assets under construction balance at 30 June 2017.

Comparative Information

Comparative information in these financial statements has not been restated for changes in network ownership, *Queensland Rail Access Undertaking 1* or Queensland Rail's *Costing Manual* unless specifically stated otherwise.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont.)

2. Below Rail Services Provided by Queensland Rail

Below Rail Services provided by Queensland Rail are the activities associated with the provision and management of Rail Infrastructure for which Queensland Rail is the Railway Manager, and the network management services required for the safe operation of Train Services on the Rail Infrastructure, including Train Control Services and the implementation of safeworking procedures.

For the purposes of these statements Below Rail services exclude infrastructure and activities associated with the provision of passenger stations and platforms.

3. Costing Manual

The QCA approved a *Costing Manual* applicable to Queensland Rail on 16 June 2017. The *Costing Manual* details the format and methodology used in the preparation of these financial statements.

Standard Allocators

The *Costing Manual* approved by the QCA on 16 June 2017 includes the following Standard Allocators:

		2016-17	2015-16
A	Share of Queensland Rail Wide Items Allocated to Below Rail Services provided by Queensland Rail	45.0%	45.0%
B	Operations Management "Mark Up"	0.0%	5.0%
C	West Moreton Region's Share of Network Wide Items	6.5%	7.5%
D	Mt Isa Region's Share of Network Wide Items	12.5%	n/a
E	North Coast Region's Share of Network Wide Items	25.5%	n/a

As a result of Standard Allocator B decreasing from 5.0% to 0.0%, there is a \$1.1 million reduction in overheads allocated to Below Rail for 2016–17.

The standard allocators used for Mt Isa and the North Coast Region in the 2015/16 Below Rail Financial Statements were 13.5% and 27.5%, respectively.

4. West Moreton Region

The *Costing Manual* requires the Financial Statements to separately identify the West Moreton Region from the Rest of Network. The West Moreton Region represents the following rail corridors:

- Rosewood to Miles
- Columboola to Cameby Downs

5. Mt Isa Region

The *Costing Manual* requires the Financial Statements to separately identify the Mt Isa Region from the Rest of Network. The Mt Isa Region represents the following rail corridors:

- Stuart to Mount Isa
- Flynn to Phosphate Hill

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont.)

6. North Coast Region

The *Costing Manual* requires the Financial Statements to separately identify the North Coast Region from the Rest of Network. The North Coast Region represents the following rail corridors:

- Nambour to Aurizon Interface Point 11 (Parana)
- Gympie North to Gympie
- Maryborough West to Maryborough
- Auckland Point
- Aurizon Interface Point 7 (Rocklands) to Aurizon Interface Point 2 (Durroburra)
- Glenmore to Nerimbera
- Aurizon Interface Point 1 (Kaili) to Townsville
- Erakala to Mackay Harbour
- Bowen Jct to Bowen
- Townsville Jetty Branch
- Townsville to Cairns
- Cobarra Balloon
- North Coast Line Branches:
 - Aurizon Interface Point 12 (Graham) – Taragoola

The Below Rail financial statements include the North Coast Line Branches as part of the North Coast Region.

7. Internal Charges

Internal charges for Below Rail Services provided are treated as revenue. Internal charges treated as revenue are access charges, telecommunications charges and ancillary infrastructure charges. The total internal charges reported as Below Rail Services revenue in 2016-17 was \$144.0 million (\$140.6 million in 2015-16).

8. Revenue Net Off

Clause 3.4 of Queensland Rail's *Costing Manual* requires that certain non-sales revenues be netted off against related expenses in the preparation of the Statement of Earnings before Interest and Tax. Examples of transactions netted off against related expense are:

- (a) Revenue that is a direct cost reimbursement;
- (b) Proceeds from the sale of scrap; and
- (c) Non-sales revenue recorded in corporate overhead and corporate service areas.

The total revenue offset against expenses for 2016-17 is \$32.9 million (\$29.9 million in 2015-16) of which \$15.9 million (\$17.7 million in 2015-16) relates to Below Rail Services.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont.)

9. Allocated Items

This Note provides details of the value of network wide revenue, expenses, assets and investments allocated to Regions using Standard Allocator C. The balance of Below Rail Services revenue, expenses, assets and investments have been either directly identified to regions (including identified to corridors), or attributed to regions on a causal basis. Network wide items have been allocated to West Moreton, Mount Isa and North Coast Regions using the Standard Allocator C that applied in the respective year.

(a) Statement of Earnings before Interest and Tax

The following table shows the allocated and attributed or identified Below Rail Services revenues and expenses:

	YEAR ENDED 30 JUNE 2017			YEAR ENDED 30 JUNE 2016		
	Allocated Network Wide \$000's	Identified / Attributed To Regions \$000's	Total Below Rail \$000's	Allocated Network Wide \$000's	Identified / Attributed To Regions \$000's	Total Below Rail \$000's
REVENUE						
Access charges - coal	-	35,847	35,847	-	68,230	68,230
Access charges - other	-	263,421	263,421	-	279,871	279,871
Transport Service Contracts	-	538,000	538,000	-	536,517	536,517
Contributions from developers	-	288	288	-	288	288
Other	9,936	2,419	12,355	8,145	2,884	11,029
Total Revenue	9,936	839,975	849,911	8,145	887,790	895,935
OPERATING EXPENSES						
Infrastructure maintenance	5,129	375,184	380,313	4,298	359,308	363,606
Derailment / collision / flood repairs	-	10,646	10,646	-	9,489	9,489
Train operations management	4	44,444	44,448	(13)	42,514	42,501
Other expenses	31,215	22,244	53,459	21,134	17,786	38,920
Corporate overhead	20,385	-	20,385	30,106	-	30,106
Depreciation and amortisation	8,684	133,228	141,912	7,217	143,738	150,955
Total Operating Expenses	65,417	585,746	651,163	62,742	572,835	635,577

Telecommunications costs treated as network wide amount to \$22.3 million, including maintenance \$5.1 million, other expenses \$9.1 million and \$8.1 million depreciation.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont.)

9. Allocated Items (Cont.)

(b) Statement of Assets

The following table shows the allocated and attributed or identified Below Rail assets:

	YEAR ENDED 30 JUNE 2017			YEAR ENDED 30 JUNE 2016		
	Allocated Network Wide \$000's	Identified / Attributed To Regions \$000's	Total Below Rail \$000's	Allocated Network Wide \$000's	Identified / Attributed To Regions \$000's	Total Below Rail \$000's
Current Assets						
Receivables	1,733	21,463	23,196	2,031	27,576	29,607
Inventories	42,754	-	42,754	45,734	-	45,734
Other	3,687	363	4,050	5,278	-	5,278
Total Current Assets	48,174	21,826	70,000	53,043	27,576	80,619
Non-Current Assets						
Fixed assets						
Property (Land and Buildings)	22,731	117,903	140,634	24,244	119,952	144,196
Plant and Equipment	25,950	109,597	135,547	19,629	94,687	114,316
Infrastructure						
Permanent Way	-	3,094,183	3,094,183	-	2,945,446	2,945,446
Other	32,637	710,068	742,705	38,242	624,405	662,647
Assets under Construction	59,890	273,175	333,066	31,712	338,315	370,027
	141,208	4,304,927	4,446,135	113,827	4,122,805	4,236,632
Intangibles	9,618	7,831	17,449	13,641	6,371	20,012
Inventories	6,905	-	6,905	6,515	-	6,515
Other	4,370	-	4,370	4,716	-	4,716
Total Non-Current Assets	162,101	4,312,758	4,474,859	138,699	4,129,176	4,267,875
Total Assets	210,275	4,334,584	4,544,859	191,742	4,156,752	4,348,494

Below Rail network wide assets include \$37.9 million for telecommunications infrastructure (\$37.4 million in 2015-16).

(c) Statement of Investments

The following table shows the allocated and attributed or identified Below Rail investments:

	YEAR ENDED 30 JUNE 2017			YEAR ENDED 30 JUNE 2016		
	Allocated Network Wide \$000's	Identified / Attributed To Regions \$000's	Total Below Rail \$000's	Allocated Network Wide \$000's	Identified / Attributed To Regions \$000's	Total Below Rail \$000's
Expenditure on fixed assets	39,430	357,392	396,822	47,606	426,597	474,203

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont.)

10. Maintenance Costing Methodology

Queensland Rail uses a normal costing methodology in its job costing system to determine the cost of infrastructure maintenance and derailment/collision/flood repairs. This costing system:

- (a) Identifies the type of maintenance activity and its location;
- (b) Calculates a direct job cost from the sum of:
 - i. Actual direct labour hours multiplied by the applicable standard labour rate;
 - ii. Actual direct plant hours multiplied by the applicable standard plant rate for Queensland Rail plant;
 - iii. Actual cost of materials or external services (e.g. plant hire) used; and
- (c) Applies an overhead to the job cost being the sum of direct actual labour hours multiplied by an applicable standard overhead rate.

Direct costing variances, being the difference between the direct job costs calculated as in (b) above and the actual direct costs incurred, are applied to infrastructure maintenance reported in the Statement of Earnings before Interest and Tax. Overhead costing variances, being the difference between the overhead applied to job costs calculated as in (c) above and the actual overhead costs incurred, are reported as infrastructure maintenance or corporate overhead in the Statement of Earnings before Interest and Tax, depending on the source of the variance.

The table below shows the amount of costed overhead applied and the source of the costed overhead:

	YEAR ENDED 30 JUNE 2017					YEAR ENDED 30 JUNE 2016				
	West Moreton Region \$000's	Mount Isa Region \$000's	North Coast Region \$000's	Rest of Network \$000's	Total Below Rail \$000's	West Moreton Region \$000's	Mount Isa Region \$000's	North Coast Region \$000's	Rest of Network \$000's	Total Below Rail \$000's
Overhead Applied										
Infrastructure maintenance	4,244	6,048	11,947	40,905	63,144	4,042	5,110	16,121	22,481	47,754
Derailment / collision / flood repairs	114	291	462	483	1,350	38	419	114	428	999
Overhead Source										
Other expenses	(2,026)	(3,896)	(7,947)	(17,297)	(31,166)	(1,678)	(3,020)	(13,114)	(4,562)	(22,374)
Corporate overhead	(2,166)	(4,166)	(8,499)	(18,497)	(33,328)	(1,978)	(3,561)	(7,254)	(13,586)	(26,379)
Net Difference	166	(1,723)	(4,037)	5,594	-	424	(1,052)	(4,133)	4,761	-

The net difference represents the estimated impact on West Moreton, Mount Isa and North Coast Region costs as a result of attributing a share of overheads direct to maintenance activities compared to the Costing Manual methodology of allocating a portion using Standard Allocators C, D and E.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont.)

11. Other Relevant Matters

(a) Attribution of Coal Access Charges

Access charges for coal traffic relate mostly to coal trains that originate from mines in the West Moreton Region for unloading at the Port of Brisbane. These hauls are on rail corridors in both the West Moreton Region and the Metropolitan Region, which is reported in Rest of Network.

Revenue for coal access charges may include a number of pricing components which have been attributed to regions as follows:

1. AT1 component is applied as a rate per thousand gross tonne kilometres (GTK), and is directly identified with the GTK recorded for specific corridors.
2. AT2 component (if applicable) is a fixed amount per Reference Train Service, and has been attributed to rail corridors based on the GTK recorded.
3. Other component typically relates to payments and rebates for specific infrastructure which are identified to regions based on the value of related infrastructure in the region, and the levy for QCA fees and payments arising from contract take or pay provisions which are attributed to corridors in line with the AT1 component.

The following table shows the breakdown by pricing component of the coal access charge revenue:

Price Components	YEAR ENDED 30 JUNE 2017					YEAR ENDED 30 JUNE 2016				
	West	Mount	North	Rest of	Total	West	Mount	North	Rest of	Total
	Moreton	Isa	Coast	Network		Moreton	Isa	Coast	Network	
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
1. AT1	20,742	-	-	9,844	30,586	20,913	-	-	10,838	31,751
2. AT2	20,157	-	-	8,123	28,280	19,974	-	-	9,137	29,111
3. Other	(12,225)	-	-	(10,794)	(23,019)	4,555	-	29	2,784	7,368
Total	28,674	-	-	7,173	35,847	45,442	-	29	22,759	68,230

The current year Other component (item 3 above), included a credit of \$29.9 million (\$28.9 million plus interest) (\$16.9 million for West Moreton plus interest) to Aurizon. The Access Undertaking for Queensland Rail was approved by the QCA on 11 October 2016, with new coal reference tariffs commencing from that date. The QCA required Queensland Rail to reimburse Aurizon for access charges applied in excess of the QCA determined coal reference tariffs for the period 1 July 2013 to 10 October 2016.

A further \$4.1 million (\$3.9 million plus interest) in over-recovered revenue will be reimbursed to Aurizon in 2017-18. This amount was recognised in the financial statements of Queensland Rail as a contingent liability as at 30 June 2017, while issues about the timing of the reimbursement to Aurizon were determined by the QCA. The QCA made a draft determination on the matter in August 2017. The credit has been accrued in the 2017-18 financial reporting period.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont.)

11. Other Relevant Matters (cont.)

(b) Depreciation and amortisation

Depreciation and amortisation reported in the Statement of Earnings before Interest and Tax relates only to rail infrastructure held for the provision of Below Rail Services. Other depreciation and amortisation expenses relating to assets held for maintenance or administration activities (e.g. for buildings, plant and equipment and depot facilities) have been reclassified as a working expense of those activities. See Note 12 for further details.

(c) Treatment of plant and equipment assets

Below Rail Services plant and equipment mainly comprise assets held for the maintenance of below rail infrastructure. The following tables indicate the amounts attributed or allocated to above rail and below rail and also whether the regional analysis of these assets relied upon the use of Standard Allocator C (i.e. network wide items), or direct attribution to regions.

Plant & Equipment 30 June 2017	Total Queensland Rail \$000's	Below Rail			Total Above Rail \$000's
		Network Wide \$000's	Regions \$000's	Total \$000's	
Rollingstock	1,138,097	16,429	-	16,429	1,121,668
Motor Vehicles	70,750	12,654	55,097	67,751	2,999
Other Plant & Equipment	78,445	2,694	48,673	51,367	27,078
Total Queensland Rail	1,287,292	31,777	103,770	135,547	1,151,744

The majority of rollingstock held by Queensland Rail is for passenger transport and therefore above rail, however a number of wagons are held for the purpose of transporting infrastructure materials.

At 30 June 2017 the written down value of Queensland Rail's motor vehicles was \$70.8 million, of which \$67.8 million was directly identified with Network by cost centre. A summary of the treatment of vehicles is as follows:

Motor Vehicles 30 June 2017	Total Queensland Rail \$000's	Below Rail			Total Above Rail \$000's
		Network Wide \$000's	Regions \$000's	Total \$000's	
Network	67,822	12,654	54,642	67,296	525
Other Queensland Rail	2,928	-	455	455	2,474
Total Queensland Rail	70,750	12,654	55,097	67,751	2,999

The vehicles attributed to Regions, within Below Rail, are specific to the regions according to their cost centre and location information. Network vehicles attributed to above rail relate to maintenance of above rail infrastructure.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont.)

12. Reconciliation to General Purpose Financial Report - Income Statement

The Queensland Rail Financial report for the year ended 30 June 2017 relates to the Queensland Rail group (i.e. Queensland Rail, Queensland Rail Limited and On Track Insurance Pty Ltd). The Statement of Earnings before Interest and Tax for the year ended 30 June 2017 prepared pursuant to the *Costing Manual* has been reconciled to the general purpose financial report - Income Statement for Queensland Rail Limited, and also with the general purpose financial report - Consolidated Income Statement for the Queensland Rail group as follows:

Year Ended 30 June 2017	General Purpose Income Statement				Revenue Net Off	Internal Charges	Reclassify Depreciation (1)	Queensland Rail Costing Accounts	Above Rail & Other Services	Statement pursuant to Costing Manual
	Queensland Rail Group Consolidated	On Track Insurance Pty Ltd	Inter-Company Eliminations	Queensland Rail Limited						
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
Revenue										
Transport Service Contracts revenue	1,582,668	-	-	1,582,668	-	-	-	1,582,668	1,044,668	538,000
Passenger transport revenue	69,715	-	-	69,715	-	-	-	69,715	69,715	-
Network access revenue	163,358	-	-	163,358	-	136,121	-	299,479	211	299,268
Other revenue	61,547	-	-	61,547	(29,098)	7,848	-	40,297	27,654	12,643
Other income	3,904	-	-	3,904	(3,757)	-	-	148	148	-
Total Revenue	1,881,192	-	-	1,881,192	(32,855)	143,969	-	1,992,307	1,142,396	849,911
Operating Expenses										
Working expenses	1,176,003	347	-	1,175,656	(32,855)	7,848	42,331	1,192,980	683,729	509,251
Internal Access charges	-	-	-	-	-	136,121	-	136,121	136,121	-
Depreciation & amortisation	380,428	-	-	380,428	-	-	(42,331)	338,097	196,185	141,912
Total Operating Expenses	1,556,431	347	-	1,556,084	(32,855)	143,969	-	1,667,198	1,016,035	651,163
Earnings before Interest & Tax	324,762	(347)	-	325,109	-	-	-	325,109	126,360	198,748
Finance costs	182,178	-	-	182,178						
Income tax expense	42,069	(104)	-	42,173						
Profit for the Year	100,515	(243)	-	100,758						

(1) Depreciation reclassified as a working expense within these Statements typically relates to buildings, plant and equipment and depot facilities used for providing internal corporate or maintenance services.

Glossary

Above Rail Services means those activities, other than Below Rail Services, required to provide and operate Train Services, including rollingstock provision, rollingstock maintenance, non-Train Control related communications, train crewing, terminal provision and services, freight handling and marketing and administration of those services.

Access means the non-exclusive utilisation of a specified section of rail infrastructure for the purposes of operating Train Services.

Access Charge means the price paid by a Railway Operator for Access under an Access Agreement.

Queensland Rail Access Undertaking 1 refers to the *access undertaking* approved in accordance with the *Queensland Competition Authority Act 1997* on 11 October 2016 for QR Network Pty Ltd.

Allocated Items means a category of assets, costs, revenues and investments that is used in the general costing approach described in the Costing Principles section of the Manual. The three categories used are as follows:

- (a) Identifiable. Where costs are directly incurred, or assets directly used, in the performance of Below Rail Services, those costs and assets are directly Identified as Below Rail Costs;
- (b) Attributable. Where costs are incurred, or assets are used, in common for the provision of Below Rail, Above Rail and/or Other Services, and where there is a causal relationship between the resources used for Below Rail, Above Rail or Other Services, these costs are Attributed on a reasonable basis of cost causality; and
- (c) Allocated. Where assets, costs, revenues and investments are used jointly for the provision of Below Rail, Above Rail and/or Other Services, and where there is no direct causal relationship between the resources used for Below Rail, Above Rail or Other Services, these costs are Allocated on a reasonable basis.

Below Rail Services means the activities associated with the provision and management of rail infrastructure, including the construction, maintenance and renewal of rail infrastructure assets, and the network management services required for the safe operation of Train Services on the rail infrastructure, including Train Control Services and the implementation of safeworking procedures. However for the purposes of these Financial Statements **Below Rail Services** does not include passenger stations and their associated facilities.

Costing Manual means a manual prepared by Queensland Rail Limited and approved by the Queensland Competition Authority from time to time that identifies the following matters:

- (a) for Financial Statements prepared under Clause 5.3.1 of the *Queensland Rail Access Undertaking 1*:
 - i. the process for identifying, from Queensland Rail Limited's audited general purpose financial statements, the cost base for Below Rail Services, separate from other services provided by Queensland Rail Limited to which those Financial Statements relate; and
 - ii. within the cost base for Below Rail Services, the process for identifying the costs of Below Rail Services provided by Queensland Rail Limited separate from the costs of Below Rail Services provided by Operational Business Groups (i.e. the management of stations and platforms);
- (b) within the cost base for Below Rail Services, the process for identifying costs attributable to the specified corridors (corridor costs), costs not attributable to specified corridors but attributable to specified geographic regions (regional costs), and costs not attributable to specified corridors or any specified geographic region (network costs); and
- (c) the format of Financial Statements.

Financial Statements means the Statement of Assets, Statement of Earnings before Interest and Tax and Statement of Investments, for Below Rail Services managed by Queensland Rail, as required in accordance with the *Queensland Rail Access Undertaking 1*.

Glossary (Cont.)

Mount Isa refers to the region defined in Note 5 of these statements or Schedule A of the *Costing Manual*.

North Coast refers to the region defined in Note 6 of these statements or Schedule A of the *Costing Manual*.

Queensland Rail [ABN 68 598 268 528] is an unincorporated statutory body owned by the Queensland State Government. Queensland Rail changed its name from the Queensland Rail Transit Authority on 2 June 2013 in accordance with the *Queensland Rail Transit Authority Act 2013*.

Queensland Rail Limited [ABN 71 132 181 090] is a company responsible for delivery of passenger and non-coal network services in Queensland. Queensland Rail Limited became a wholly owned subsidiary of the Queensland Rail Transit Authority on 3 May 2013.

Permanent Way means track and bridge assets including formation, retaining walls, drainage systems, access roads, cuttings, embankments, tunnels, subways, fences along the rail corridor, ballast, sleepers, rails, rail fastenings, points and crossings, culverts and pipes (major), rail bridges and road overbridges (excluding footbridges). The term excludes fences surrounding other assets such as stations, freight terminals, workshops, depots and buildings.

QCA means the Queensland Competition Authority as established by the *Queensland Competition Authority Act 1997 (Qld)*.

Operator Business Group means business groups within Queensland Rail that are separate from Network and that undertake the operation of Train Services for transporting passengers for reward.

Other Infrastructure means all other classes of infrastructure excluding Permanent Way. This includes signals and train control systems excluding software, electric overhead distribution structures and power systems, telecommunication structures and equipment, footbridges, carparks, access roads and surveillance equipment.

Rail Infrastructure means Rail Transport Infrastructure, except that the term does not include track and associated infrastructure on those parts of the network not identified as the responsibility of Queensland Rail Limited in the *Queensland Rail Access Undertaking 1*.

Rail Transport Infrastructure means rail transport infrastructure as defined in the *Transport Infrastructure Act 1994 (Qld)* for which Queensland Rail is the Railway Manager.

Railway Manager has the meaning given to that term in the *Transport Infrastructure Act 1994 (Qld)*.

Railway Operator has the meaning given to that term in the *Transport Infrastructure Act 1994 (Qld)*.

Reference Tariff is an Access Charge applicable for a specified Reference Train Service, set out in Schedule D of the *Queensland Rail Access Undertaking 1*, or established by Queensland Rail and authorised by the QCA, the purpose of which is to provide information to Access Seekers as to the likely level of Access Charge for Train Service of similar type as the specified Reference Train Service (as amended, varied or escalated in accordance with the *Queensland Rail Access Undertaking* from time to time).

Reference Train Service means a notional Train Service identified in respect to a Reference Tariff and conforming to certain criteria, including specified technical characteristics, operational characteristics and contract terms and conditions.

Relinquishment Fee means the amount payable by the Access Holder should it cease to operate contracted train services.

Standard Allocators are used in certain circumstances to allocate items which are not identifiable or attributable to a Queensland Rail Service. These Standard Allocators are specified in Schedule C of the approved Costing Manual together with a reference to the relevant clauses within the manual.

Glossary (Cont.)

Take or Pay Charge means a charge or other amount payable by an Access Holder to Queensland Rail under an Access Agreement in relation to the Access Holder not fully using its Access Rights for a specified period.

West Moreton refers to the region defined in Note 4 of these statements or Schedule A of the *Costing Manual*.

Certificate of Queensland Rail

I certify that the foregoing financial statements and notes to and forming part thereof for the year ending 30 June 2017 have been prepared pursuant to Clause 5.3.1 of *Queensland Rail's Access Undertaking 1*, and the provisions of the *Costing Manual*.



Nick Easy
Chief Executive Officer
Queensland Rail

INDEPENDENT AUDITOR'S REPORT

To the Board of Queensland Rail and the Board of the Queensland Competition Authority

Report on the audit of the financial report

Opinion

I have audited the accompanying financial report of Below Rail Services provided by Queensland Rail.

In my opinion, the financial report:

- a) gives a true and fair view of the financial position as at 30 June 2017, and its financial performance for the year then ended
- b) complies with *Queensland Rail's Access Undertaking 1* and the financial reporting framework described in Note 1.

The financial report comprises the statement of assets as at 30 June 2017, the statement of earnings before interest and tax and the statement of investments for the year then ended, notes to the financial statements including summaries of significant accounting policies and other explanatory information, and the management certificate.

Basis for opinion

I conducted my audit in accordance with the *Auditor-General of Queensland Auditing Standards*, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report.

I am independent of the entity in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code and the *Auditor-General of Queensland Auditing Standards*.

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

Emphasis of matter – basis of preparation

I draw attention to Note 1 to the financial report, which describes the basis of preparation. The financial report has been prepared for the purpose of fulfilling the financial reporting responsibilities of Chief Executive Officer. As a result, the financial report may not be suitable for another purpose. My opinion is not modified in respect of this matter.

Responsibilities of the entity for the financial report

The Chief Executive Officer is responsible for the preparation of the financial report that gives a true and fair view in accordance with *Queensland Rail's Access Undertaking 1* and the financial reporting framework described in Note 1, and for such internal control as the Chief Executive Officer determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In fulfilling this responsibility, management determined that the basis of preparation described in Note 1 is appropriate to meet the requirements of *Queensland Rail's Access Undertaking 1*.

Management are responsible for overseeing the entity's financial reporting process.

Auditor's responsibilities for the audit of the financial report

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the entity.
- Conclude on the appropriateness of the entity's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. I base my conclusions on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.


D R ADAMS
as delegate of the Auditor-General



Queensland Audit Office
Brisbane