



MEETING CHALLENGES

ANNUAL REPORT 06/07



VISION

Our vision is 'Performance'. Our people and their performance are pivotal to the profitability of our business. We contribute to Queensland's economic and regional development by creating commercial and social value for our shareholders, the people of Queensland.

MISSION

We will create value through delivering responsive, innovative, rail-based solutions for our customers and stakeholders.

GOALS

QR will strive to achieve the following goals over the next five years:

- QR is recognised as a national leader in transport solutions with global reach
- Our shareholders value QR as a sound commercial investment
- QR's people are recognised for service excellence
- Customers are able to achieve their sustainability outcomes (social, safety and environment) through the use of QR's services and products.

VALUES

QR is an organisation with strong values. These values create the culture we need to support the achievement of QR's strategic direction. We value:

- Safety and Environment: "Everyone's responsibility"
- Results: "Relentless pursuit of sustainable results"
- Customers: "We respond, we deliver"
- Leadership: "Inspiring and encouraging"
- People: "Respect in all our actions"
- Creativity and Innovation: "New ideas powering our future".

COMMUNICATION OBJECTIVE

This annual report provides a comprehensive insight into the operations, performance and aspirations of QR Limited.

As a government owned corporation (GOC), we strive to ensure that our shareholders – the people of Queensland – are fully informed on the performance of their investment.

While this report is prepared primarily for shareholders, it is made available to a wider audience in the interests of corporate transparency and accountability.

If you have any suggestions for improving this report, please do not hesitate to contact us on (07) 3235 2180, or via email corporate.affairs@qr.com.au

Works Coordinator, Grant, inspects Mayne Yard's first road.

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SECTION 1

MEETING THE CHALLENGES OF 2006/07

In a year of successfully meeting challenges across a range of sectors, QR transported more people and freight than ever before, delivered a massive infrastructure expansion program, and improved profit performance.

- Approximately 58.8 million passenger journeys were completed safely on our extensive urban, inter-urban and regional Queensland network.
- Our freight businesses hauled 238 million tonnes of freight.
- We delivered the largest ever capital program totalling \$1.5 billion.
- Our profit before income tax increased by 192% to \$262 million.

FREIGHT AND LOGISTICS > PAGE 16

Products and Services

QR's portfolio of four complementary freight businesses – Coal, Bulk, Intermodal and Regional Freight – provides seamless rail-based transport and logistics solutions to a diverse national customer base.

- *QRNational Coal* hauls coal from mines in Queensland and New South Wales destined for domestic and export markets.
- QR's *bulk business* hauls freight such as grain, minerals, sugar, fuel and cement for customers in Western Australia, New South Wales and Queensland.
- *QRNational Intermodal* hauls a vast range of containerised freight, and offers customised services comprising transportation, warehousing, shipping and port operation, and distribution across Australia.
- *Queensland Regional Freight* provides transport solutions throughout Queensland with links to the national intermodal network.

Through the wholly owned CRT Group, we also provide specialist transport and logistics solutions to polymer, food and industrial customers across Australia.

2006/07 Highlights

- QR's freight businesses moved 238 million tonnes, the largest single haulage for a company in the history of Australia's railways.
- QRNational Coal increased tonnages by almost 9% to approximately 176 million tonnes.
- Eight new coal trains were brought into service, increasing overall system throughput by up to 19.35 million tonnes per annum.
- Railing operations began from eight new coal mines in the Goonyella and Hunter Valley systems.
- ARG was successfully integrated, with synergies achieved across the bulk business.
- QRNational Intermodal began operating daily container train services between Melbourne and Adelaide.
- Concept designs and plans are being developed for the Forrestfield Container Terminal in Perth, the final link in QRNational's east-west train services.

2007/08 Outlook

- We will continue our focus on establishing independent coal, bulk, intermodal and regional freight businesses to strengthen our customer focus and service excellence.
- Global demand for coal is expected to continue its strong growth. QRNational Coal is committed to working closely with our customers to improve our ability to meet their needs.
- The mining boom and a renewed determination by the Western Australian Government to shift bulk products to rail ensure a positive outlook for QR's bulk business. We aim to capitalise on this by supporting our customers' growth plans and providing them with logistics services that complement our rail offering.
- The general freight market is expected to double over the next 10-15 years. A number of strategic initiatives are underway to secure QRNational Intermodal's position as a national, integrated and highly competitive freight enterprise.

PASSENGERS > PAGE 22

Products and Services

QR provides suburban, long-distance and tourist rail services throughout Queensland.

- Our *Citytrain* network covers approximately 300 kilometres and includes 143 stations. It stretches south to the Gold Coast, north to Gympie, east to Cleveland, and west to Rosewood, and is the backbone of TransLink's South East Queensland integrated public transport system.
- *Traveltrain* provides long-distance travel to regional Queensland.
- Through *Tourist Train*, we offer highly popular rail experiences via the Kuranda Scenic Railway and the Gulflander.

2006/07 Highlights

- Passengers conducted approximately 58.8 million passenger journeys on 260,000 passenger services.
- Citytrain peak patronage increased by 9%.
- Citytrain peak period On-Time Running performance averaged 93.6%.
- The first of a new Citytrain fleet was introduced in May, with the remainder of the 44 three-car sets to be introduced into service by 2010.
- The Tilt Train fleet returned to normal-speed operations (maximum 160 km/h) after satisfying all safety requirements.

2007/08 Outlook

- Passenger Services will continue to be challenged by a range of external variables, but aims to meet the changing and diverse needs of our customers by improving services and providing value for money.
- We will continue our capital expansion program to meet the rail transport requirements of the growing South East Queensland region, while maintaining service continuity and observing our commitment to the TransLink fully integrated public transport system.

TRACK ACCESS > PAGE 25

Products and Services

QR Network Access maintains and manages access to and operations on one of Australia's largest rail networks, comprising approximately 10,000 kilometres of track and associated infrastructure.

The network includes QR's metropolitan Citytrain network, regional freight and tourist lines, heavy haul tracks, and the interstate track between the New South Wales border and Brisbane.

2006/07 Highlights

- QR Network Access delivered the largest ever network capital program, comprising \$660 million in below rail infrastructure.
- \$300 million was spent on increasing coal rail infrastructure capacity.
- QR continued the massive expansion of the Brisbane metropolitan network via the SEQIPRAIL program.
- QR Network Access managed a record 88 billion gross tonne kilometres (GTK) across the network.
- Australia's first major rail multi-user terminal was established in partnership with P&O.
- A new seven-year Transport Services Contract was agreed with the Queensland Government.

2007/08 Outlook

- Growing demand is challenging transport infrastructure capacity across Australia, which provides significant opportunities for QR Network Access.
- We will continue to work closely with our customers and industry partners to attract the largest possible share of the land transport market to rail.

A QRNational coal train winds its way through the Goonyella system towards the port at Hay Point, Mackay.



INFRASTRUCTURE SERVICES > PAGE 27

Products and Services

Infrastructure Services Group (ISG) builds and maintains QR's above and below rail infrastructure.

2006/07 Highlights

- More than \$200 million worth of capital works were completed on time and on budget.
- Maintenance costs were reduced to \$3.48 per thousand GTK, indicating a steady reduction in costs despite an increased traffic task.

2007/08 Outlook

- Achieving the appropriate balance of maintenance and capital works will be critical to providing safe, reliable and fit-for-purpose infrastructure that helps support sustainable growth.

ROLLINGSTOCK & COMPONENT SERVICES > PAGE 29

Products and Services

Rollingstock and Component Services (RACS) overhauls, manufactures and maintains QR's rollingstock.

2006/07 Highlights

- RACS Redbank reduced the average Citytrain overhaul cycle time from 40 days to 31.
- RACS Rockhampton achieved a 20% improvement on 3500/3600 class freight locomotive overhauls.

2007/08 Outlook

- RACS will continue to work towards becoming commercially competitive, by working closely with our internal customers to meet their business needs and deliver excellent customer service.

SHARED SERVICES > PAGE 31

Products and Services

Shared Services Group (SSG) provides services including learning and development, operational human resource services, information services, supply chain management, property services, project management services, financial services and rollingstock engineering.

2006/07 Highlights

- Property Division successfully negotiated the purchase of a 120-hectare property in the Hunter Valley, which will service QR's train operations and complement future rail and port container and related operations.
- HR Operations implemented a commercially flexible new payroll system which now has, on average, 5,500 transactions performed in the 'Employee Self Service and Manager Self Service' section every day.
- The Property Management unit increased revenue by 7% to \$9.1 million.

2007/08 Outlook

- SSG will continue to be flexible in the range of services offered to QR's customer-facing lines of business, allowing them to be more adaptable and responsive to their customers.

QR's Tilt Trains slice their way through spectacular coastal scenery between Brisbane and Cairns.



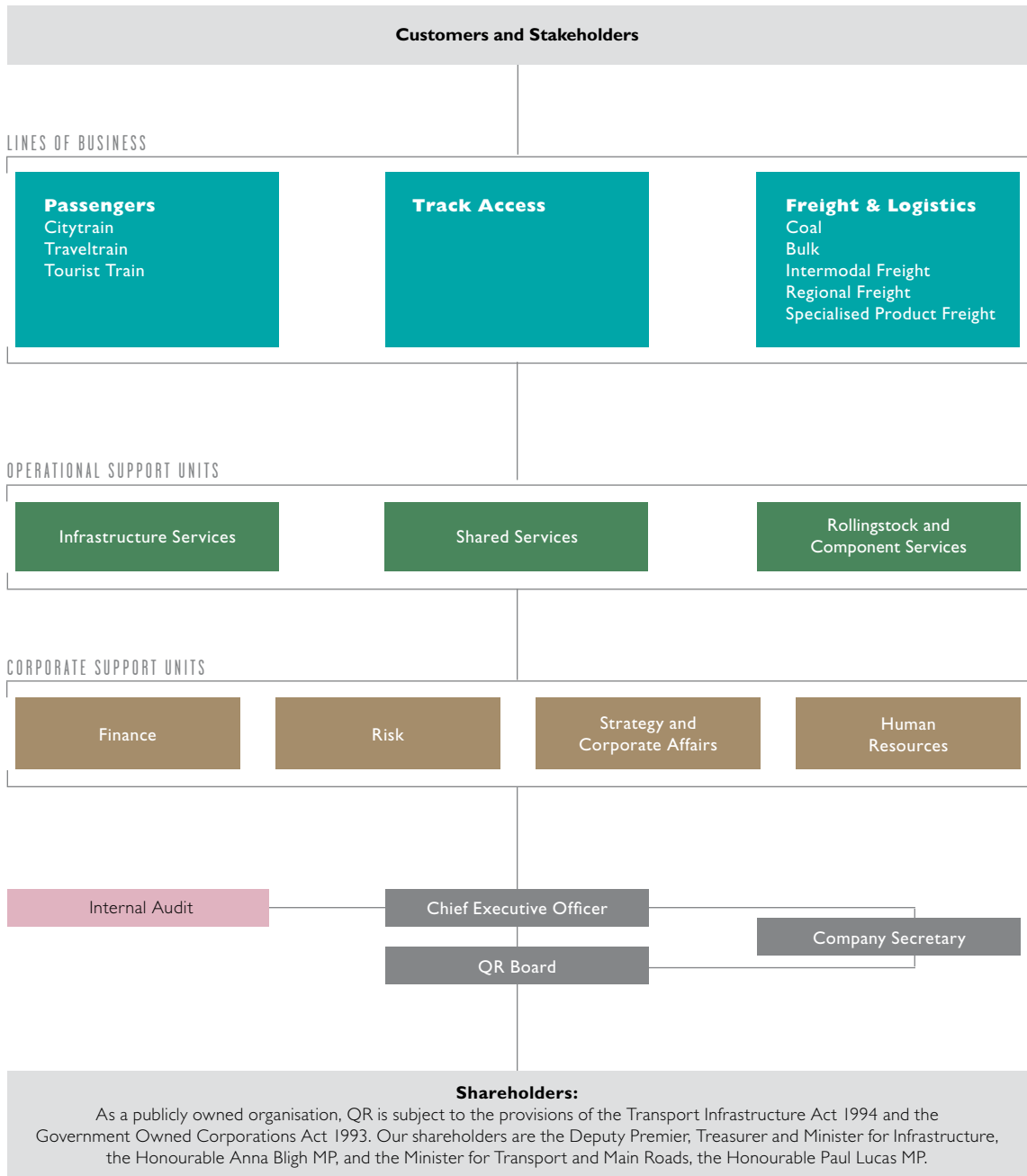
THIS IS QR

QR is a leading, fully integrated national transport provider. Generating revenue of more than \$3.1 billion a year, we move more coal and freight than any other rail operator in Australia and provide around 58.8 million passenger journeys on our almost 10,000 kilometre rail network.

QR is committed to delivering results for our owners, our customers, and the communities in which we operate.

Our technical expertise, networks and flexible approach enable us to deliver rail transport solutions that are safe, reliable and sustainable.

We deliver our products and services through three customer-facing lines of business, which are supported by a number of operational and corporate support units.



Note: In September 2007 the Deputy Premier, Treasurer and Minister for Infrastructure, the Honourable Anna Bligh MP, became the Premier while the Minister for Transport and Main Roads, the Honourable Paul Lucas MP became the Deputy Premier and Minister for Infrastructure and Planning. QR's new shareholding Ministers are the Treasurer, the Honourable Andrew Fraser MP and the Minister for Transport, Trade, Employment and Industrial Relations, the Honourable John Mickle MP.

CHAIRMAN'S REPORT

The building of capability and commitment to tackle emerging challenges for QR has been a key focus during 2006/07.

Work is well advanced in reshaping and repositioning the business, and in building a solid platform to capitalise on forecast growth in the Australian transport and logistics market.

Good progress was made during the year in integrating our east and west coast bulk freight operations following the June 2006 acquisition of ARG, and also in establishing stand-alone coal and intermodal freight businesses.

While our bulk operations now span the country, we need to strengthen our logistics offering between Cairns, Perth and Melbourne. Likewise, the current resources boom will see our coal operations continue to expand, especially as rail and port capacity constraints are overcome. We are working hard to achieve short-term increases in tonnages for customers while delivering on longer term investment in extra rollingstock and track capacity. Acting CEO Stephen Cantwell talks about this more in his report.

A range of options is being considered by the QR Board and shareholding Ministers to drive QR into its next phase of growth, recognising the increasingly competitive national market in which QR operates.

Extending our operations beyond Queensland and forging ahead with our national freight strategy remains an absolute priority. We will leverage our operational excellence, identify emerging opportunities and seek private sector partners to grow the business quickly.

Here in Queensland the extraordinary population growth, particularly in the south east corner, is seeing record investment in new suburban and inter-urban commuter rail infrastructure. While Citytrain continues to meet service performance standards set by government, we recognise that passenger growth is putting pressure on the network. We are looking forward to bringing on extra services and capacity for our customers over the coming year.

Our focus will remain on improving services to our existing customers and delivering profitable and sustainable business outcomes for our shareholders.

During 2006/07, QR transported more freight for its customers, delivered more passengers safely to their destinations and constructed more rail track than at any time in its 142-year history.

We have entered an unprecedented growth period for rail and the broader transport and logistics industry. The opportunities for QR are exciting but there will be growing pains.

Recruitment and retention of talented people lies at the heart of service excellence moving forward. Simply put, our people will allow us to achieve our true potential.

We are committed to the improvement of our performance in the areas of safety, financial performance, customer service and asset utilisation, and are working hard to deliver the required outcomes. So far solid progress has been made in all areas but there's much more to be done.



John Prescott AC, Chairman

We thank our shareholding Ministers and the Queensland Government for their continuing support and investment in our business. Our commitment is to always maximise the return on investment by meeting and exceeding the expectations of our shareholding Ministers and the people of Queensland who they represent.

SAFETY

Safety is our number one priority. Every QR employee and contractor working on a QR site has a right to return home from work in an "as fit" state as when they arrived. This is a fundamental right. It is also sound business practice that we protect our most valuable asset – our people.

Tragically, in February this year, Paul Adams, an employee in our bulk business, was killed in a shunting accident at Kalgoorlie. The accident is still under investigation, but we cannot allow an incident like this to be repeated. On behalf of QR, I extend my heartfelt condolences to Paul's family and loved ones.



Network Controller, Adam, keeps South East Queensland moving at Mayne Control, Brisbane.

CHAIRMAN'S REPORT

The QR Board strongly supports the ZERO Harm philosophy described in Stephen Cantwell's report. It is about developing a culture based on ZERO Harm to our employees, our contractors, our business partners and the environment. ZERO Harm is not a program or a business process, it is a fundamental shift in the way in which we operate and conduct our business. A commitment to ZERO Harm is an acknowledgement by every QR employee from the Board down; that safety is our number one priority. It is recognition that every employee has a responsibility to ensure their own safety and the safety of their colleagues.

RESULTS

Improving our financial performance continues to be a major emphasis for the business, as we push ahead with national expansion and the improvement of our commercial focus.

While there is much work still to be done, our performance last financial year showed a marked improvement on 2005/06 and sets the pace for continued growth.

Sales revenue increased from \$2.5 billion to \$3.1 billion and profit before income tax improved from \$89.7 million to \$262 million, while we hauled a record-breaking 238 million tonnes of freight. The message is simple for 2007/08 – QR needs to increase the profitability of its core businesses and deliver higher dividends to shareholders. A number of initiatives and projects are underway to reduce costs, improve margins in our core businesses and deliver a higher return on our assets.

LEADERSHIP

On behalf of the Board of QR, I would like to acknowledge the significant contribution by our outgoing Chief Executive Officer, Robert (Bob) Scheuber, across the business but especially in moving QR firmly into the national arena. Bob retired from this role on 1 July 2007 after 32 years of dedicated service.

We are pleased with progress during the year in recruiting and renewing senior management roles, including incoming CEO Lance Hockridge. Lance will commence in late 2007 and we look forward to his leadership in taking QR into its next phase of growth and development.

I would also like to thank Stephen Cantwell for his significant contribution as Chief Operating Officer and Acting Chief Executive Officer. Stephen has shown leadership in taking the organisation forward at a time of transition.

PEOPLE

A company is not simply a collection of assets that are used to earn the best rate of return for shareholders. At QR, we have a dynamic collection of people and ideas working together to deliver the best outcomes for the company, its customers, shareholders and other stakeholders.

QR is acutely aware of the need to attract and retain the right people to bring to life the strategies for growth, customer service excellence and return on investment. We continue to develop innovative recruitment campaigns and employee development programs to ensure we have the best people working for the business, especially in the



Boilermaker, Keith, constructs a new coal wagon at QR's Redbank workshops, Ipswich.

highly competitive and critical areas of engineering and technical trades. Significant work has also been undertaken in recent years encouraging the progression of women in this traditionally male-dominated industry.

I would like to personally thank and acknowledge the contribution of each and every employee to the success and growth of QR during the year. Our employees are proud of QR and are committed to growing the company and delivering better outcomes for our customers and better value propositions for our shareholders. QR supports the development of its employees and is committed to providing a workplace that is safe, free from discrimination and equitable in its treatment of employees.

CREATIVITY AND INNOVATION

QR has expertise in the engineering and technical fields and is a world leader in rail operations and rail maintenance. No other rail operator in the country has our depth and breadth of knowledge. This is a strength we need to leverage and nurture. We know that championing innovation and rewarding our people is critical.

A great example of this is the QR Achiever Awards, which recognise the achievements of QR teams and individuals who have contributed to QR's performance in support of QR's strategic goals. This year 125 entries were received, showcasing the breadth of QR's current projects and initiatives and the depth of the creativity and innovation that is the backbone of QR.

OUTLOOK

QR is experiencing significant change in our aggressive pursuit of becoming number one in the national transport and logistics market in Australia. We are actively exploring new business partnerships, service expansions and structural changes. Nationally and globally, the rate of change is accelerating.

QR has proven that it can operate a national business but we have a lot more to do before we can say that we are truly a national leader in the transport arena.

There are a number of opportunities for QR in all of its core businesses and exciting and challenging times lie ahead. I am committed to laying the strategic, leadership and governance foundations necessary for QR to realise these opportunities.

ACTING CEO'S REPORT

The opportunities and challenges associated with growth – in both our freight and passenger tasks – have largely shaped our operations over the past year.

Following our bold, industry-shaping acquisition of the Australian Railroad Group in Western Australia in June 2006, our focus has been on growing our national footprint and putting in place the flexible, commercial business framework to effectively compete in the national rail freight market.

Building a national business brings with it the opportunity to do things differently. We are being challenged to think and perform differently as an organisation – expanding our operations interstate while continuing to serve our customers in Queensland.

At the same time, it has been a period of transition for the organisation as we farewelled long-serving CEO, Bob Scheuber.

Notwithstanding these changes, we have continued moving forward with our sights set firmly on the four priorities that underpin our business – safety, financial performance, customer service and asset utilisation.

SAFETY

A safe and caring organisation is fundamental to being a high-performing commercial enterprise – one that keeps and attracts the best people.

We care about the safety of our people and people who come into contact with our organisation.

We were devastated by the death of one of our fellow workers in Kalgoorlie. While we continue to reduce the incidence of workplace injuries, we will not be satisfied until we are certain all of our employees are safe. For this reason, we have adopted a new safety culture based on ZERO Harm. Our belief is that all employees rightly have an expectation that they will return home safely at the end of the working day.

With regard to operational safety, we have met all of our performance targets during the year to deliver a safe and reliable rail network for our customers (see *The Challenge: Safe and Secure Rail Services* for performance results).

There were no passenger deaths while travelling or entering/exiting a train, a continuation of our positive record over the past decade.

Train derailments are not good for our business, or our customers. We constantly strive to avoid train operation derailments. Further improvements were made to Derailment and Signals Passed At Danger rates.

All four Tilt Trains returned to normal-speed operations (maximum 160km/h) after additional safety controls were implemented.

Accidents at level crossings remain the railway industry's and QR's highest safety risk. During the year, there were two fatalities at level crossings.

We continue to use a systematic risk-based methodology to determine the appropriate protection measures for level crossings. We remain committed to doing what we



Stephen Cantwell, Acting CEO

can to improve level crossing safety, but we are also dependent on how pedestrians and motorists behave.

There were four major environmental incidents on or near the QR network during the year, but none resulted in serious, long-term harm.

Maintaining an outstanding safety record continues to be a key focus for us.

FINANCIAL PERFORMANCE

Our financial performance over the past year has allowed us to prove to our shareholders that QR is a sound commercial investment.

Our results for the financial year showed an increase in pre-tax profit to \$262 million against a budget of \$190 million. This was a 192% increase compared with the previous year's profit of \$89.7 million.

Return on assets (before interest and tax) was up from 3.91% to 5.64%.

Sales revenue was \$3.1 billion compared with revenue of \$2.5 billion in 2005/06. Our sales revenue exceeded \$2 billion for the seventh consecutive year. This was achieved on the back of good sales growth across all of our business activities including coal.

Strong operating cash flows allowed us to undertake a \$1.5 billion capital investment program during the year.

A \$68.5 million dividend was paid to shareholders (from last year's profits), while this year's result led to the provision of a \$151.5 million dividend, to be paid in the next financial year. This dividend represents 83% of post-tax profit.

Our journey to corporatisation was completed on 1 July 2007, as we assumed operation as QR Limited, a company government owned corporation. This structure will provide a level of discipline and flexibility comparable to that of a private sector organisation.

As a commercial organisation operating in a competitive environment, we must continue to get the best value out of every dollar we spend. We must be profitable by growing our revenue and cutting our costs. It's that simple and that challenging.

CUSTOMER SERVICE

In the competitive environment we face, our relationships with customers are paramount. Our customers have choice and we acknowledge this.

We are proud to report that in 2006/07, our customers chose QR to haul 238 million tonnes of freight, the largest single haulage for a company in the history of Australian railways. This comprised 177.7 million tonnes of coal, 54.6 million tonnes of bulk freight, and 5.9 million tonnes of intermodal and regional freight.

Passengers chose QR to make around 58.8 million journeys for work and pleasure throughout the year.

ASSET UTILISATION

Commercial organisations will only survive if they achieve enough return on the assets used in the business. Our return on assets is much lower than what it needs to be for long-term sustainability.

With an investment now of \$10 billion in assets, it is critical we focus on finding ways to improve our efficiency. The return on our assets has major consequences for our customers and the prices we charge.

A key focus in terms of asset utilisation is how effectively we use our locomotives. We have experienced delays in the delivery of new and upgraded locomotives for our coal business as a consequence of worldwide demand for componentry. That has caused us to sharpen our focus on

Coppabella coal mine's train loadout in the Goonyella rail system, Queensland.



ACTING CEO'S REPORT

the utilisation of our existing locomotives and the redistribution of locomotives across our businesses. Locomotive availability will be a key issue going forward.

We will continue to improve the utilisation of our assets. At the same time, we must continue to deliver a safe, reliable and efficient service that meets the needs of all customers.

FREIGHT

During the year, we restructured our freight businesses to operate with greater independence and accountability and to deliver strong results for our customers. We now have a portfolio of four complementary freight businesses: Coal, Bulk, Intermodal and Regional Freight. These businesses are structured to deliver expert, tailored freight services to our diverse national customer base.

Coal

The past year has brought into sharp focus the importance of partnership and the role QR plays as a partner with customers and stakeholders in coal supply chains in Central Queensland and the Hunter Valley in New South Wales.

Total coal tonnages grew by almost 9% over the past year and there's been some particularly strong performance

and business growth in New South Wales. This is pleasing as we build our national footprint in the freight business.

It is also clear our coal customers have been concerned about our performance in Central Queensland, and we need to do more to meet their expectations.

The pressures associated with the coal boom resulted in the appointment of an independent expert, Mr Stephen O'Donnell, to review the performance of the Goonyella coal supply chain. QR welcomed his report not only because it will result in better outcomes but also because, for the first time, it provided a clear and independent picture of the complexity of this issue. The report reinforced how each participant – the mines, QR and the ports – plays a part in the success of the coal supply chain.

QR has made strong progress with the two recommendations in the review relating to QR. We're working hard to move more coal for our customers and deliver long-term investment programs in new infrastructure. We are more than halfway through a \$1.4 billion program for 120 new or upgraded locomotives and 1,500 new coal wagons. We're also well advanced in procuring additional locomotives and wagons. A business improvement program has also been established to deliver an extra five million tonnes per annum out of the Goonyella system. A similar process has been implemented in the Blackwater system to deliver more tonnages for customers.

QR's bulk freight team plan nickel traffic near the Port of Townsville, Queensland.



Bulk

Bulk is a growing market of great opportunity. Our focus throughout the year has been on consolidating our national bulk business, bringing together the capabilities from our ARG acquisition and the existing QR bulk business, and putting in place a leadership team to drive the business forward.

In that period we have secured arrangements with existing customers, and we are well advanced in bringing on significant new business in order to take advantage of our new national capability. We will continue to expand where it is commercially sensible.

In Western Australia, strong growth in the mining and resources sector is providing opportunities for profitable future growth.

We have already committed significant new capital to our operations on the east and west coasts. Our aim now is to leverage this investment from a national perspective.

Intermodal

We have been continuing to build and improve our new national intermodal business, building scale to provide line haul for general freight across Australia from Cairns to Perth.

We are well advanced in a new commercial acquisition to augment and strengthen our CRT business. We have invested in the business and we are looking to innovate around new technologies. The result has been better train yields, better reliability and better train operations.

PASSENGERS

By all benchmarks, we have stayed at the forefront of rail passenger transport in Australia throughout the year.

Peak patronage on our Citytrain network increased by 9% on the previous year. Our On-Time Running performance, which is an indicator of our peak period reliability, averaged 93.6%.

Further State Government funding of \$295 million was secured to enable the expansion of the Citytrain fleet. In total \$584 million is being invested in new rollingstock and in the infrastructure to stable the rollingstock.

The continuing population growth in South East Queensland represents a significant challenge. Passenger Services will continue its capital expansion program to meet the region's rail transport requirements, while maintaining service continuity and a strong commitment to TransLink's fully integrated public transport system.

One of QR's sleeper laying machines in action between Ormeau and Coomera.



ACTING CEO'S REPORT

TRACK ACCESS

We have worked harder than ever to meet the growing needs of our customers. Our track access business, QR Network Access, led and delivered the largest ever network capital program in QR's history. The QR-wide \$1.5 billion capital program is designed to increase capacity for passenger and freight services, reduce transit times, improve reliability for customers and allow wagons with higher payloads.

During the year, \$660 million was spent on below rail infrastructure. This included \$300 million in coal rail infrastructure across 33 different work sites as part of the first Central Queensland Coal Rail Infrastructure Master Plan. All of this was achieved as QR Network Access managed the highest ever gross tonne kilometres across the network.

As the fastest growing urban region in Australia, South East Queensland's public transport infrastructure requires significant expansion to meet projected population growth. Over the next 20 years, SEQIPRAIL will deliver nearly \$7 billion of upgrades to the region's rail network. Progress on our SEQIPRAIL Program also has been outstanding. To date, three alliances have been formed, 11 projects are up and running, and six projects are in planning phases.

In another dimension to our growing business, we established Australia's first major rail multi-user terminal in partnership with P&O at Acacia Ridge. We have begun long-term planning and assessing options to upgrade the Brisbane Multi-User Terminal to meet forecast demand.

The Queensland Government confirmed its confidence in QR as an infrastructure provider by signing a new seven-year Transport Services Contract for the provision of rail services.

OUR PEOPLE

None of what we accomplish is possible without our people, who remain committed and aligned to QR's Values and Behaviours:

- Safety and Environment: *"Everyone's responsibility"*
- Results: *"Relentless pursuit of sustainable results"*
- Customers: *"We respond, we deliver"*
- Leadership: *"Inspiring and encouraging"*
- People: *"Respect in all our actions"*
- Creativity and Innovation: *"New ideas powering our future"*.

Building capacity and capability is a critical focus, particularly in a period of unprecedented growth for the rail industry. We are aiming to be the first choice employer among our competitors.

Moving forward, one of our greatest challenges is to continue to create an environment where people are excited and energised, and can be part of a high-performance organisation.

At any given time, we employ more than 425 apprentices and 40 trainees. Each year, we spend more than \$50 million on learning and development.

During 2006, more than 360 new trainee drivers started their training and we led the development of six national qualifications for occupations related to trackside systems.

A testament to the calibre of people in QR is the QR Achiever Awards. These awards recognise the many groups and individuals throughout QR who are helping us to perform differently. The awards applaud outstanding performance that supports our strategic goals, while also demonstrating QR's Values and Behaviours. This year, 125 entries were received – each nomination inspiring a sense of pride in everyone who is part of this great organisation.

ACKNOWLEDGEMENTS

On behalf of all of us at QR, I would like to pay tribute to outgoing CEO, Bob Scheuber, who served QR as CEO for six and a half years from December 2000. Competition brought with it a new playing field and Bob was a determined, passionate and inspirational coach to all of us who are proud to be part of the QR team.

OUTLOOK

More is being demanded of us by our customers and stakeholders and, in turn, we need to deliver more – value, satisfaction and performance.

We are world leaders in narrow gauge rail operations. We also want to be industry leaders in service delivery. Critically, that includes safe operations.

To do this, we will continue to strive to understand our customer and stakeholder needs. We must be good at listening to our customers and taking advantage of our proven technical skills to successfully offer business solutions and packages.

QR is now a national business. We are embracing the national marketplace and shaping our business to become a true national transport leader. This will ensure that QR will continue to grow and contribute to healthy competition in the national transport and logistics industry.



THE CHALLENGE: COMPETING SUCCESSFULLY IN THE NATIONAL FREIGHT MARKET

During the year, QR restructured our freight businesses to operate with greater independence and deliver strong results for our customers. QR now has a portfolio of four complementary freight businesses: Coal, Bulk, Intermodal and Regional Freight. These businesses are structured to deliver expert, tailored freight services to our diverse national customer base.

QR's freight businesses provide seamless rail-based transport and logistics solutions to our customers. We haul coal and other bulk freight such as grain, minerals, livestock, sugar, fuel and cement, as well as a vast range of containerised freight. Our services include transportation, warehousing, shipping and port operation, and distribution.

In 2006/07, QR's freight businesses moved 238 million tonnes, the largest single haulage for a company in the history of Australia's railways.

COAL

Coal is one of Australia's pre-eminent markets and, as the largest coal haulier in Australia, QRNational Coal is focused on delivering increased tonnage for our significant domestic and international coal customers. While some of the coal is for domestic use at local power stations, most is exported to our global trading partners, particularly Japan, India, Brazil, South Korea and China.

Across Queensland, QRNational Coal dominates coal transport, operating more than 500 coal train services a week from 39 mines to six export coal terminals and six domestic coal terminals. In 2005, we commenced hauling export coal in the Hunter Valley and now operate approximately 50 services a week, carrying coal from nine mines to one export coal terminal and two domestic coal locations. These operations account for approximately 15% of coal railings in New South Wales.

HIGHLIGHTS

- During 2006/07, QRNational Coal increased tonnages by almost 9% to approximately 176 million tonnes.
- In the first half of 2007, QRNational Coal brought eight new trains into service, potentially increasing overall system throughput by 19.35 million tonnes per annum.
- An upgrade of 24 diesel locomotives was completed in mid-2007.
- Railing operations from eight new mines began in 2006/07. Four mines – Isaac Plains, Carborough Downs, Millennium and Poitrel – commenced railings in the Goonyella system, and a further four – Ashton, Muswellbrook, Mt Owen and Bulga – commenced railings in the New South Wales Hunter Valley system.
- The first Australian-built, AC-technology, electric locomotives were launched in the Goonyella system. The rebuilt 3700 class locomotives have improved haulage capacity significantly, enabling three locomotives to do the job previously performed by five and improving productivity by up to 67%. The first three of 60 locomotives have begun operating in the Goonyella system, with the rest to be delivered over the next four years.

MAJOR INITIATIVES

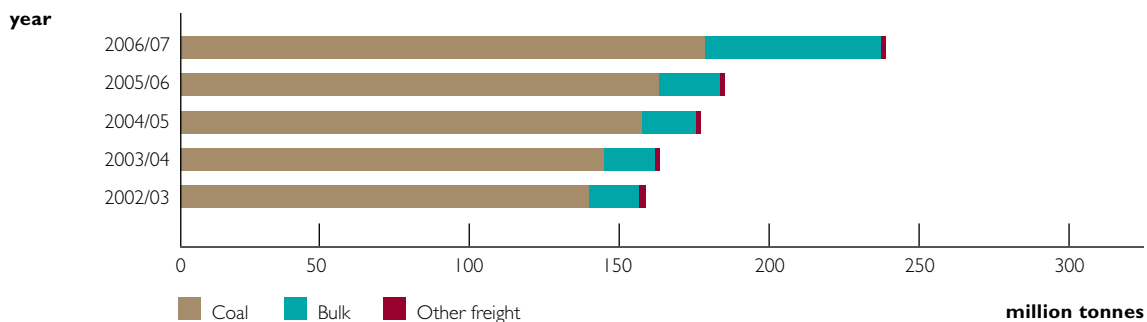
Rollingstock

Expansion of the QRNational Coal rollingstock fleet to enhance capacity is a high priority, with the purchase of additional rollingstock and upgrades of our existing fleet already underway.

Current rollingstock projects include:

- Rebuilding 63 electric locomotives (to be completed by 2011)
- Overhauling all remaining electric locomotives (to be completed by 2010)
- Introducing 20 new AC electric locomotives by 2009
- Introducing 15 new AC diesel locomotives by 2008
- Taking delivery of 870 new coal wagons by early 2008.

TOTAL FREIGHT TONNAGES



QR's total freight tonnage jumped by 30% to 238 million tonnes due to the full-year contribution of ARG to the bulk business and a 9% increase in coal tonnages.

Jilalan Upgrade Project

Together with QR Network Access, QRNational Coal is upgrading the Jilalan Yard to achieve railings of 129 million tonnes per annum in the Goonyella system by late 2009. The upgrade includes new bypass roads, additional provisioning roads, new wagon maintenance facilities, and an upgrade of the locomotive maintenance facilities. This upgrade has been declared a State Significant Project.

Maintenance Deployment & Allocation Project

The success of the Maintenance Deployment and Allocation project in optimising the utilisation of electric locomotives in the coal system led to annual savings of \$7.3 million and the availability of two additional electric locomotives. A further three locomotives have been identified as available, and progress has been made in obtaining these assets.

MEETING FUTURE CHALLENGES

Global demand for coal is expected to continue its strong growth over the next 25-30 years, and this is both a challenge and an opportunity for all the partners in Australia's coal supply chains. QRNational Coal understands that we play a vital role in helping to meet this challenge

and maintain the country's global coal market dominance. Investment for growth is well underway and this vital commitment to rail infrastructure expansion will help ensure the continued prosperity of our business, and the success of our industry partners.

QRNational Coal has now been established as a stand-alone business, enabling us to implement much-needed change and respond faster to customer demand. In conjunction with a government and industry review, we have progressed practical and innovative business improvement programs to further enhance our performance.

We are committed to meeting recommendations for improvement and continuing to work closely with our customers to meet their business needs. Together with the expansion programs already underway, this work will assist us to remain Australia's largest coal haulier into the future.



IN FOCUS

3700 CLASS LOCOMOTIVE 3-FOR-5 REPLACEMENT PROGRAM

During the year, QR took delivery of three prototypes of the new 3700 class locomotive. These three new locomotives can haul the same tonnage as five existing 3100/3200 locomotives, delivering a massive 67% increase in productivity.

The 3-for-5 Replacement Program, which involves rebuilding the existing 3100/3200 class locomotives, is an example of QR's continuing drive for innovation. It is scheduled to be completed by 2011, by which time 63 locomotives will have been rebuilt.

The program also delivers each rebuilt locomotive for \$3.5 million less than the cost of a new locomotive, providing an overall saving of \$210 million. This is good news for our customers, as QR is delivering increased capacity at a reduced cost.

Apprentice Systems Electrician, Caetlyn, pictured with a 3700 Class locomotive ready to be put into service.

THE CHALLENGE: COMPETING SUCCESSFULLY IN THE NATIONAL FREIGHT MARKET

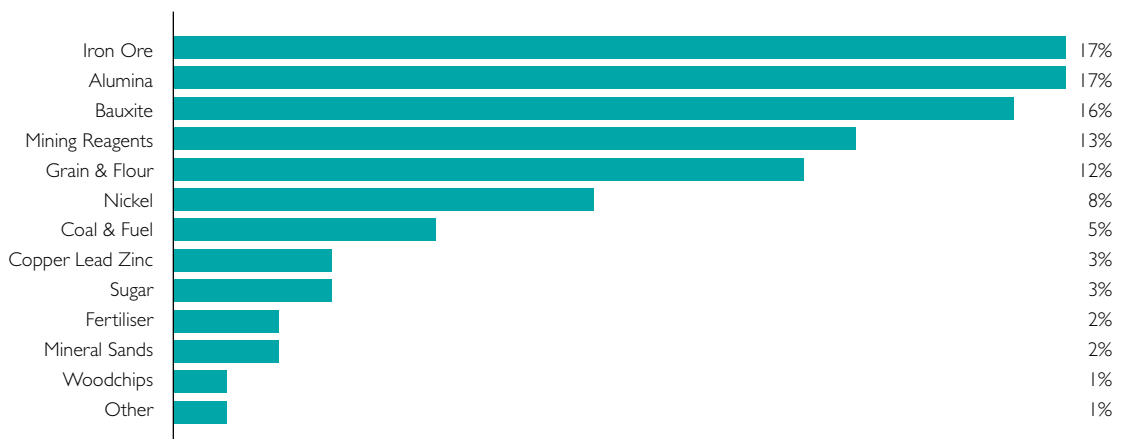
BULK FREIGHT

QR is the national market leader in bulk commodity rail transportation, transporting 60 million tonnes of bulk product for our customers each year. We became a national business in 2006 with the amalgamation of the Australian Railroad Group (ARG) bulk business in Western Australia, New South Wales, Victoria and South Australia with QRNational Bulk in Queensland.

QR's bulk business is headquartered in Perth, Western Australia but operates from more than 30 depots, terminals and offices across the country, enabling us to provide our customers with focused rail solutions.

Our customers are drawn predominantly from the mining and minerals processing markets and from agricultural industries such as grain, sugar and woodchips.

QR BULK COMMODITY MIX 2006/07



The largest diesel locomotive in Australia, the 5000 class, loading coal at Mt Arthur Mine, Hunter Valley.



HIGHLIGHTS

- The bulk business secured several major new contracts during the year, including:
 - A contract to transport 0.6 million tonnes per annum (mtpa) of coal in Western Australia
 - A new contract with an existing customer to transport an additional 1.5 mtpa of iron ore, bringing the total business to 3 mtpa
 - A contract to transport up to 2 mtpa of iron ore commencing in late 2007.
- Two major contract renewals, with increased volumes, were secured during the year.

MAJOR INITIATIVES

Locomotive Replacement Program

In mid 2007, we began a strategic review of our long-term locomotive acquisition program to improve our efficiency and ensure timeliness in line with our customers' growth plans.

Business Unit Structure

The bulk business will implement a business unit structure to increase accountability and improve customer responsiveness. Within the bulk business, there will be seven business units with full profit and loss and balance sheet responsibility, as well as direct responsibility for operations and customer relationships.

MEETING FUTURE CHALLENGES

The mining boom, combined with a renewed determination by the Western Australian Government to shift bulk products to rail, ensures a positive outlook for QR's bulk business. We aim to capitalise on the extraordinarily positive long-term outlook by fully supporting our customers' own ambitious growth plans, and providing them with other value-added logistics services that complement our core rail offering.

In Western Australia, the expansion of the iron ore business in the mid-west and the Pilbara represents significant opportunities, with our existing iron ore customers looking to double production over the next five years. Our existing bauxite and alumina customers have plans to grow by more than 30% over the same period. In Queensland, new copper and zinc mines will provide further growth for the bulk business.

From December 2007, legislation introduced by the Western Australian Government will potentially see up to a million tonnes of timber products from the south west of the state move from road to rail.



IN FOCUS

BUILDING A NATIONAL BUSINESS

The formation of the national bulk business was based around the acquisition of ARG in June 2006. In 2006/07, ARG was successfully integrated into the QR corporate framework without disruptions to customer services or the loss of key staff.

Several other important initiatives were achieved to deliver a national bulk business, including:

- The establishment of an ARG office in Brisbane
- Synergies between the two organisations were achieved, particularly in capital management. Specifically, these centred on ARG providing standard gauge locomotives to QRNational Intermodal to support north-south operations, and QRNational providing narrow gauge locomotives to ARG to commence iron ore contracts in Western Australia.

AB class locomotive with new livery rolls out of the paint shed at Forrestfield Rollingstock Maintenance Facility, Perth.

THE CHALLENGE: COMPETING SUCCESSFULLY IN THE NATIONAL FREIGHT MARKET

INTERMODAL & REGIONAL FREIGHT

QRNational Intermodal & Regional Freight was established in April 2007 to increase specialisation and customer focus, and significantly lift commercial performance.

With more than 200 train services scheduled each week and access to more than 50 terminals and depots, QRNational Intermodal & Regional Freight links businesses in locations as far apart as Cairns, Sydney, Melbourne and Perth. We work hard to ensure our freight services meet the needs of our customers in both regional and metropolitan areas.

HIGHLIGHTS

- Changes to truck scheduling and rostering in South East Queensland have saved \$1.2 million on equipment costs. The changes improved fleet utilisation and lowered shift length for drivers, while still providing our customers with a high level of service.
- QRNational implemented a simplified and innovative rating system for our retail freight business, which sets us apart from our competitors. The new system makes it easier for customers to calculate their rates, while streamlining account processing.
- QRNational Intermodal began operating daily container train services between Melbourne and Adelaide, and is now able to offer our customers Cairns-to-Adelaide rail linehaul services.
- More than 330 new trainee drivers started their training in 2006. They are scheduled to receive their national train driver accreditations by 2008.
- QRNational and Central Queensland University are developing the world's first intelligent train monitoring system. Providing drivers with information about train stability and energy consumption, the system has the potential to reduce maintenance costs, increase fleet reliability, and save fuel.



IN FOCUS

A LIFE-SAVING DELIVERY SERVICE

QRNational has a longstanding relationship with Brisbane-based courier company Yellow Couriers, and works very closely with Yellow Couriers to provide transport solutions.

One of Yellow Couriers' major customers in the Brisbane and Gold Coast metropolitan areas is Baxter Healthcare, which provides life-saving kidney disease medical supplies to customers and home patients around Australia.

Yellow Couriers partnered with QRNational to provide a quality, reliable transport solution to service customers throughout regional and remote Queensland.

QRNational adds value by providing a door-to-door service to hospitals, nursing homes and directly to private patients' residences, which reduces handling and costs.

The strong relationship between QRNational and Yellow Couriers benefits both businesses and helps Baxter Healthcare deliver to Queensland.

QRNational's Transport Service Operator, Peter, and Yellow Couriers' Major Account Executive, Fiona, work on transport solutions that benefit both companies.



QR's CRT Group works closely with QRNational at the Yennora Freight Distribution Centre, Sydney.

- Concept designs and plans are being developed for the Forrestfield Container Terminal in Perth. The proposed terminal will be the final link in QRNational's east-west train services. With easy access to the arterial road network, close proximity to customer facilities and room for expansion, the terminal is expected to add significant value for our customers.

MEETING FUTURE CHALLENGES

The national general freight market is currently worth about \$10 billion per year, and is expected to double over the next 20 years. With strong technical expertise and experience, we are well placed to compete aggressively on cost, innovation and supply chain integration, and meet the increasing demand for national freight solutions.

A number of exciting strategic initiatives are underway to secure our position as a national, integrated and highly competitive freight enterprise. Through acquisitions and partnerships, we aim to improve our service offering for customers and enhance our commercial performance.

A continued focus on establishing independent coal, bulk, intermodal and regional freight businesses will strengthen our customer focus and service excellence. In the future, all interstate and major intrastate commercial traffic will be handled by our intermodal business, while the remaining intrastate traffic will be handled by our regional freight business.

THE CHALLENGE: A SAFE AND RELIABLE PASSENGER RAIL OPERATION

QR's Passenger Services Group provides the people of Queensland with access to a comprehensive suite of urban, inter-urban, long-distance and tourist rail services, and consistently maintains one of the world's safest and most reliable passenger rail operations.

The growing population of South East Queensland relies on Citytrain to provide passenger rail services across the urban and inter-urban rail network. Long-distance Traveltrain services connect Queensland's coastal and rural communities, with Tilt Trains and traditional trains offering a variety of travel options. In Far North Queensland, the picturesque and historical Kuranda Scenic Rail journey continues to be a highly popular rail experience for both international and

domestic tourists. Through the Gulflander and Heritage Services, we actively promote QR's rich history and ensure its preservation for the benefit of future generations.

In 2006/07, almost 58.8 million passenger journeys were completed safely on approximately 260,000 services.

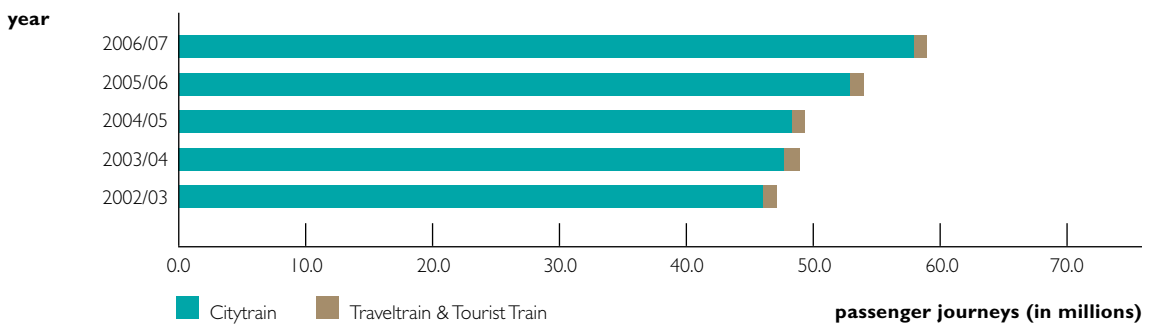
HIGHLIGHTS

- Citytrain peak patronage increased by 9% on the previous year.
- Our On-Time Running result averaged 93.6% for the year.



Citytrain delivered 57.9 million passenger journeys during the year.

TOTAL PASSENGER JOURNEYS



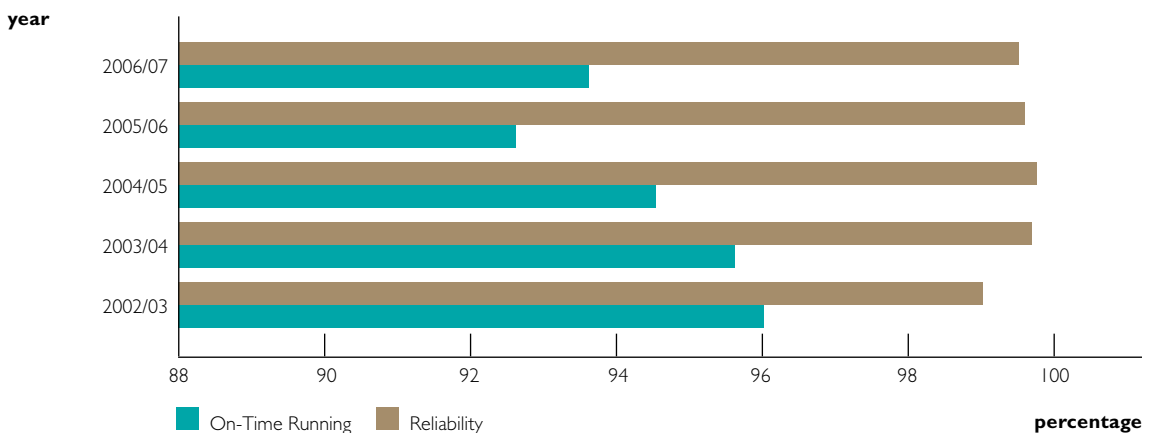
Passenger patronage increased significantly in 2006/07 due to the increasing demand for services from South East Queensland's expanding population.

- The first of the 44 new three-car sets for the Citytrain fleet were introduced in May, with the remainder of this fleet anticipated to be delivered by the end of 2010. Funding of \$584 million for this rollingstock and associated stabling incorporates the \$295 million secured in 2006/07.
- Progress continued on delivering the SEQIPRAIL program, the rail component of the Queensland Government's unprecedented infrastructure investment plan. The SEQIPRAIL program has been recognised as one of the best performing portfolios in the overall South East Queensland Infrastructure Plan.
- Progress continued on improving access to stations and trains.
- All four Tilt Trains returned to normal-speed operations (maximum 160km/h) after satisfying all safety case requirements.
- A significant number of trainee drivers began training during the course of the year. These new drivers will support network service expansion as new rollingstock comes into service.
- Passenger Services increased the number of Transit Officers on the network from 80 to 110, improving operational capability, customer service, security and revenue protection.



Citytrain welcomed the first of our fleet of new rollingstock to the network on 28 May 2007.

CITYTRAIN PERFORMANCE



Citytrain improved our On-Time Running performance, with an average of 93.6% of services in the combined AM and PM peak periods arriving at the service destination within three minutes and 59 seconds of the scheduled time.

Citytrain reliability was steady, with 99.6% of total scheduled services operating during an extended period of substantial infrastructure expansion.

THE CHALLENGE: A SAFE AND RELIABLE PASSENGER RAIL OPERATION

MAJOR INITIATIVES

Upgrade of Closed Circuit Television Network

As part of our continuing commitment to passenger safety, work has commenced on upgrading the Closed Circuit Television (CCTV) network at 72 stations from analogue to digital. \$2.3 million in State Government funding has been allocated to introduce CCTV at additional stations and sealed car parks.

Smart Card Add Value Vending Machines

In partnership with TransLink, Passenger Services is continuing with preparations for the introduction of smart cards, which offer our customers increased convenience and ease of use. An increasing number of participants have joined the smart card pilot program and the rollout installation of smart card Add Value Vending Machines (AVVMs) continued during the year. More than 150 AVVMs are currently installed in readiness for the rollout of smart card.

Disability Discrimination Act Community Forum

The annual QR Disability Discrimination Act (DDA) community forum was held at the Brisbane Convention and Exhibition Centre. Entitled "Tracking Our Journey

Together – QR and the Community Working Together", the forum provided Passenger Services with an invaluable opportunity to discuss current and future DDA works to improve the accessibility of our trains and stations.

MEETING FUTURE CHALLENGES

In the coming year, Passenger Services will continue to be challenged by a range of external variables including population growth, an ageing demographic, changes in travel patterns, road congestion, escalating fuel prices, transport competition and environmental considerations.

We aim to meet the changing and diverse needs of our customers by continually improving our services, while providing value for money.

To meet the rail transport requirements of South East Queensland's growing population, Passenger Services will continue our capital expansion program, while maintaining service continuity and observing our collaborative commitment to the TransLink fully integrated public transport system.



IN FOCUS

GRAFFITI PREVENTION

Graffiti continues to be a costly problem on railway networks around the world. Not only are substantial costs associated with its removal, but graffiti vandalism also affects public perceptions of safety on the network. Passenger Services takes a proactive approach to reduce graffiti vandalism on the Citytrain network, maintaining a close working relationship with authorities and the Queensland Police Service.

During the year, Passenger Services introduced an enhanced rapid removal program with dedicated graffiti removal crews operating across the Citytrain network. The program aims to discourage repeat graffiti vandalism by dramatically reducing the amount of time that defaced trains are publicly visible. New reporting processes have also been introduced to give police greater opportunities to collect evidence at the scene of the crime.

Train Presentation Attendant, Kert, removes graffiti from Citytrain rollingstock using gel-based solvent and recycled water.

THE CHALLENGE: FACILITATING ACCESS AND DEVELOPING THE NETWORK

QR Network Access provides our customers with access to one of Australia's largest rail networks, stretching from the Queensland-New South Wales border north to Cairns. The \$4.6 billion rail network includes the South East Queensland metropolitan Citytrain network as well as the economically important heavy haul coal and mineral tracks.

Within the regulatory framework, QR Network Access offers an integrated rail management package focused on facilitating access, developing the network and managing network performance. We work hard to maximise outcomes for QR's freight customers, passengers and third party operators.

HIGHLIGHTS

- QR Network Access delivered the largest ever network capital program, comprising \$660 million in below rail infrastructure. This included \$300 million in infrastructure to serve the coal industry as part of the innovative Central Queensland Coal Rail Infrastructure Master Plan.
- Australia's first major rail multi-user terminal was established in partnership with P&O at Acacia Ridge, Brisbane.
- QR Network Access agreed and commenced a new seven-year Transport Services Contract to provide a fit-for-use network for the Queensland Government.
- Two integrated planning teams were established to work with our industry partners to help facilitate increased volumes on the two major coal chains.
- QR Network Access managed the highest ever gross tonne kilometres across the network for the freight industry.
- Three major infrastructure alliances – TrackStar, Horizon and S2K (Salisbury to Kuraby) – were established. These are QR's first major infrastructure delivery alliances.

MAJOR INITIATIVES

Coal Rail Infrastructure Master Plan

The Coal Rail Infrastructure Master Plan provides for the expansion of rail infrastructure to fulfil the increasing capacity and performance requirements of the Central Queensland coal industry. Following endorsement of the Master Plan by industry, several key milestones were achieved during 2006/07, including:

- The program is on target and on budget across all systems, offering increased capacity and efficiencies to our customers and stakeholders. This is a significant achievement, especially considering the escalation of construction costs across Queensland
- All infrastructure works in the Moura System were delivered before schedule and within the approved budget
- Future project planning is underway for the Northern Missing Link, Surat Basin Railway and the Wiggins Island Terminal.

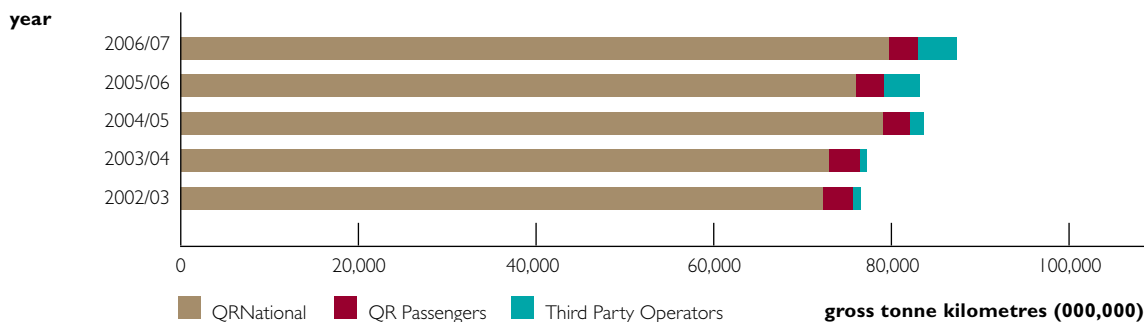
SEQIPRAIL

As the fastest growing urban region in Australia, South East Queensland's public transport infrastructure requires significant expansion to meet projected population growth. Over the next 20 years, SEQIPRAIL has been contracted by the Queensland Government to deliver nearly \$7 billion of upgrades to the region's rail network.

SEQIPRAIL progress has been outstanding. To date, three alliances have been formed, 11 projects are up and running, and six projects are in planning phases.

The alliances are focused on achieving innovation in design, delivery and value for money for our customers. For example, the TrackStar Alliance created a new design for the Caboolture to Beerburum alignment, which saved \$66 million, reduced construction time by nine months, and resulted in less community impact in the form of closures and night work.

TRACK USAGE QUEENSLAND NETWORK



QR's Queensland track usage increased by 5% to 88 billion gross tonne kilometres as a result of increased freight tonnages and passenger services.

THE CHALLENGE: FACILITATING ACCESS AND DEVELOPING THE NETWORK

Brisbane Multi-User Terminal

QR Network Access established the Brisbane Multi-User Terminal at Acacia Ridge in partnership with terminal operator P&O. During the past year, the terminal has processed more than 280,000 twenty-foot equivalent units (TEU), up 40,000 TEU from the previous year.

QR Network Access has begun long-term planning and assessing options to upgrade the terminal to meet forecast demand for the freight industry.

MEETING FUTURE CHALLENGES

Growing demand is challenging transport infrastructure capacity across Australia and presents significant opportunities for QR Network Access.

To ensure we are well positioned to take advantage of emerging opportunities, we aim to:

- Become more responsive to customer and stakeholder needs
- Maintain an already high standard of safety and environmental performance under a growing freight and passenger task
- Achieve greater efficiencies in service delivery
- Build capacity to meet increased demand
- Build the right capabilities among our people to meet the emerging environment
- Continue to be a key player in the national transport industry.

QR Network Access will continue to work closely with customers and industry partners to attract the largest possible share of the land transport market to rail.



IN FOCUS

FACILITATING STRONG GROWTH IN THE NATIONAL RAIL FREIGHT MARKET

QR Network Access is making significant progress in our efforts to increase rail's competitiveness and our service offering to the land transport industry in Queensland and Australia.

For example, we are growing the business in key areas, such as the Brisbane Multi-User Terminal (BMUT) at Acacia Ridge and the important Brisbane-Cairns corridor, where improving our capabilities and increasing capacity will give our customers more options for transport. These efforts will also lead to more jobs and investment in Queensland and draw a larger proportion of the freight market to rail.

The BMUT is a QR-owned, multi-user facility and a key location for the transfer of interstate freight between road and rail. It is an important terminal on the national network, and an interface with the Port of Brisbane. With the freight market expected to nearly double over the next 20 years, QR is undertaking long-term planning to upgrade the terminal to meet the volume increases predicted for rail.

Significant improvements have been implemented in the 12 months since QR began managing the terminal. As a result, our customers have been able to transport more than 280,000 TEU through the terminal, an increase of 40,000 TEU on the previous year.

Containerised freight loading at the Brisbane Multi-User Terminal, Acacia Ridge.



Construction of RG Tanna third unloading station underway by QR infrastructure crew.

THE CHALLENGE: SUPPORTING QR'S CUSTOMER-FACING LINES OF BUSINESS

The men and women of QR's operational and corporate support units keep QR moving. Each journey made by a passenger and the movement of each coal wagon, grain train or container is only possible through QR's fully integrated support services.

INFRASTRUCTURE SERVICES GROUP

QR's Infrastructure Services Group (ISG) provides quality construction, maintenance and management solutions to ensure QR's rail network is safe, reliable and fit-for-purpose. We work with other QR divisions to deliver integrated services that contribute to efficient rail operations for freight customers and passengers alike.

ISG is responsible for a diverse range of works covering track, telecommunications, signalling, train control systems, overhead traction systems, structures and facilities including Citytrain stations. To meet the increasing traffic task and demand for rail capacity, we are also heavily involved in delivering infrastructure expansions as part of QR's massive capital works program.

HIGHLIGHTS

- More than \$200 million worth of capital works were completed on time and on budget to meet increased demand for capacity, particularly in the metropolitan and coal rail systems.
- Maintenance costs were reduced to \$3.48 per thousand gross tonne kilometres, a steady reduction despite an increased traffic task. Overall track condition remained stable.
- ISG led the development of six national qualifications for occupations related to trackside systems, benefiting both QR and the Australian rail industry.
- The introduction of an automated, mobile application for the maintenance of QR's trackside systems led to improved planning, scheduling and allocation of tasks. The application also helps ensure the continuing performance of QR's infrastructure despite a skill shortage climate.

THE CHALLENGE: SUPPORTING QR'S CUSTOMER-FACING LINES OF BUSINESS



IN FOCUS

ONE PLAN GROUP

The One Plan Group (OPG) was established to bring together all ISG-related maintenance, construction and upgrade activities affecting the movement of coal in the Goonyella coal chain. This includes civil track, overhead electrification, signalling, data and radio transmissions, major plant and equipment, and works involving external contractors such as Powerlink.

The OPG works with all groups involved and with QR Network Access to develop a coordinated program that aligns with the customer and market needs of the system. The aim is to achieve the best possible integration of mine, port and rail resources, assets and activities to maximise throughput across the supply chain.

Network Controller, Kathryn, plans train services.

MAJOR INITIATIVES

Improving Planning

ISG is continuing to implement a number of initiatives focused on improving the planning and coordination of infrastructure-related activities. Effective planning will help improve the efficiency of our operations and maximise the performance of the network.

These initiatives include improving planning capability, better management of infrastructure maintenance, establishing the Works Integration Unit for project managing capital works in the metropolitan and coal systems, and introducing more automated, mobile applications to enhance the planning, allocation and completion of tasks in the field.

Capital Investment

ISG is currently undertaking a major capital investment program to replace or enhance infrastructure plant and equipment over the next five years. The program is expected to deliver significant benefits including improved quality, productivity, efficiency, reliability, safety, information capture and analysis. It will also improve resource utilisation by increasing maintenance intervals. Investing in the right equipment and technology will help ensure ISG continues to provide the right solutions for QR and our customers.

MEETING FUTURE CHALLENGES

With the increasing traffic task and demand for rail capacity, ISG is committed to delivering its massive infrastructure expansion and maintenance program with fewer track closures and disruptions to revenue services.

By investing in its people, assets, systems and processes, ISG will be well positioned to effectively meet the needs of our customers and provide quality, seamless infrastructure solutions now and into the future. ISG will also continue to focus on improving efficiency and commerciality to deliver best value results for the business.

Achieving the appropriate balance of maintenance and capital works will be critical to providing safe, reliable and fit-for-purpose infrastructure that helps support sustainable growth.

ROLLINGSTOCK & COMPONENT SERVICES

Rollingstock and Component Services (RACS) is responsible for the overhaul, manufacture and heavy maintenance requirements of most of QR's rollingstock fleet, including locomotives, wagons and carriages. We also manage component maintenance for rollingstock. RACS provides integrated support to QR's customer-facing lines of business and ISG to help them deliver safe and reliable train services.

RACS has a flexible, committed and experienced workforce of 1,450 staff, including 180 apprentices, at four locations – Redbank, Rockhampton, Townsville and Ipswich. Each site offers diverse capabilities in rollingstock and component supply service solutions.

HIGHLIGHTS

- In 2006/07, RACS Rockhampton completed 216 diesel and electric locomotive lifts, almost twice the amount originally planned.
- The Lost Time Frequency Rate improved by 40%, decreasing from a rate of 32.96 in July 2006 to less than 20 in June 2007.
- RACS Redbank reduced the average Citytrain overhaul cycle time from 40 days to 31 to meet the target of 11 units for the year.
- RACS Rockhampton achieved a 20% improvement on 3500/3600 class locomotive overhauls, reducing cycle times from an average of 78.5 days to 60 days.
- RACS Townsville halved cycle times from 32 weeks to 16 weeks for the refurbishment of Traveltrain's MAS class carriages.

MAJOR INITIATIVES

Biannual Conference and RACS Top 5

RACS conducted our biannual conference in March 2007 to engage staff and unions in a shared vision about RACS's future. Attended by State union officials, workplace representatives and RACS management, the conference focused on our key business performance priorities, known as the RACS Top 5 – improving workplace health and safety, increasing labour utilisation to boost productivity, reducing cycle times, reducing costs, and improving quality to deliver safe, secure and reliable train services.

Engineering tradesperson, Colin, fits bearings to a wheelset.



THE CHALLENGE: SUPPORTING QR'S CUSTOMER-FACING LINES OF BUSINESS



IN FOCUS

ENHANCING ENVIRONMENTAL SUSTAINABILITY

The drought in South East Queensland has prompted RACS Redbank to introduce a range of water-saving initiatives including installing sensor-driven, automatic, nine-second faucets, using recycled water for cleaning, fuel tank flushing and gardens, installing rainwater tanks, and introducing a waterless urinal system. In addition, design work is underway on a dam to contain stormwater and treated pollution water. As a result of these initiatives, RACS Redbank's town water consumption has fallen by 64% in the past year, easing pressure on the region's dwindling water resources.

Facilities plumber, Glen, fits a water meter.

Commercial Rail Project

This project began in September 2006 and aims to increase our competitiveness against external suppliers. The project involves task teams reviewing each work section's operations against external providers, and developing and implementing recommendations for improvement. The project collaboratively involves management, unions and employees and is expected to deliver improved productivity and reduced costs.

Zero Incident Process

RACS is the first QR group to implement the Zero Incident Process, a psychologically based safety process designed to empower people to take responsibility for their personal safety. RACS is planning to expand on the concept by encouraging employees to take personal responsibility for productivity-based improvements.

MEETING FUTURE CHALLENGES

RACS recognises the need to become commercially competitive and will continue to work closely with our internal customers to meet their business needs and deliver excellent customer service. We will also continue to reduce costs while improving productivity.

Through the RACS Top 5 and internationally recognised business improvement strategies such as 5S, Six Sigma and Lean Manufacturing, we are building a motivated, responsive and progressive workforce and business.

SHARED SERVICES GROUP

Combining expertise with an understanding of QR's operating environment, Shared Services Group (SSG) provides support services that assist our internal customers to contribute to QR's bottom line.

These services include implementing more than 7,000 procurement and supply contracts, managing accommodation and real estate including 1,692 properties, servicing more than 8,800 PCs and laptops, delivering international projects, overseeing more than \$1 billion worth of projects, ensuring 14,000 personnel are paid, and creating engaging learning and development programs attended by more than 2,000 staff.

HIGHLIGHTS

- The Property Management unit within Property Division increased revenue by 7% to \$9.1 million. This includes \$2.1 million from the advertising portfolio, \$900,000 from station and platform vending, and \$5.8 million from leasing.
- The Customer Contact Centre within Financial Services Division reduced telecommunications charges by \$400,000 by managing all conference calls internally.
- HR Operations implemented a new payroll system that is commercially flexible and seamlessly integrated within QR's suite of existing SAP HR, logistics and finance systems. On average, 5,500 transactions are now performed in the 'Employee Self Service and Manager Self Service' section every day.
- Learning and Development was a finalist in the Excellence in Learning Resources category of the Australian Institute of Training and Development Awards for their Skills Recognition and Development Program.

MAJOR INITIATIVES

Property Acquisition in Hunter Valley

On behalf of the Hunter Valley coal initiative, Property Division successfully negotiated the purchase of the last remaining industrial-zoned property in the Hunter Valley region, with two kilometres of rail frontage to the main New South Wales North Coast Line. The 120-hectare property at Hexham provides an appropriate site for QR to service our Hunter Valley train operations and complements future rail and port container and related operations.

Engineering Delivery Manager, Scott, inspects the QR telecommunications hub in Brisbane.



THE CHALLENGE: SUPPORTING QR'S CUSTOMER-FACING LINES OF BUSINESS

METRORAIL

In the past year, Project Delivery Services coordinated more than 70 projects at a total spend of over \$56 million through METRORAIL. A major focus was continuing to deliver the \$70.8 million QR Citytrain Disability Standard Infrastructure project, which aims to improve access to stations and rollingstock for people with disabilities.

Enterprise Information Strategic Plan 2007-2011

Information Services Division (ISD) recently completed the Enterprise Information Strategic Plan 2007-2011, which demonstrates ISD's commitment to creating value through business-driven IT initiatives. The plan also identifies various other business initiatives that will improve operational efficiency and customer service, for example, the provision of online services as well as using information to improve QR's decision-making capability.

MEETING FUTURE CHALLENGES

SSG seeks to be flexible and agile in the range and levels of services offered to QR's customer-facing lines of business, allowing them to improve their adaptability and responsiveness to their customers.

SSG has developed several strategies based on enhancing services and efficiency by improving end-to-end processes, assisting QR to achieve better returns on its \$10 billion worth of assets.



IN FOCUS

DESIGNING A MORE EFFICIENT AND ENVIRONMENTALLY FRIENDLY LOCOMOTIVE

Rollingstock Engineering has designed an economical, high-performance locomotive to replace QR's fleet of 3100/3200 class locomotives. The redesign of existing locomotives has resulted in the greatest possible asset utilisation for this component of QR's coal delivery logistics chain.

By rebuilding existing locomotives, QR has saved \$3.5 million per locomotive and \$210 million in asset investment costs.

Using regenerative braking technology, the locomotives return electricity to the State power grid, saving QR money and reducing greenhouse gas emissions from power stations.

Design engineers, David and David, review the design for the 3700 class locomotives.



Rail CRC Researcher, Dr Damon Honnery, works in the Monash Diesel Engine Test Facility on Project 55 'The Assessment of the effect of diesel fuel additives on locomotive performance and operation'.

RESEARCH AND DEVELOPMENT

QR invests heavily in research and development (R&D) to maintain and advance our leading position in the Australian rail industry. R&D projects are conducted both internally and in collaboration with external research centres.

COOPERATIVE RESEARCH CENTRE FOR RAILWAY ENGINEERING AND TECHNOLOGIES

QR continued our strong involvement and commitment to the Cooperative Research Centre for Railway Engineering and Technologies (Rail CRC), with a significant number of QR personnel working on research projects that have the potential to increase QR's operational performance and reduce ongoing maintenance costs.

As part of an \$8 million commitment over the seven-year life of the Rail CRC, QR contributed \$375,000 in cash and \$841,000 in kind during 2006/07. This included the industry expertise of approximately 150 employees across a range of engineering, technical and training disciplines.

The following are some of the Rail CRC projects in which QR has been involved for the year:

- *Native vegetation to stabilise rail tracks* – An investigation into the ability of native vegetation to stabilise soil around rail tracks, potentially resulting in significant maintenance savings
- *OZ-ECP brake product* – The development of new brake technology to allow longer, faster and heavier trains to brake with shorter stopping distances, at a fraction of the cost of implementing electronically controlled pneumatic (ECP) brake technology
- *New steel for rail wheels* – The development of a new, stronger and more durable alloy steel for rail wheels, which could save tens of millions of dollars in maintenance costs, and may also provide safety benefits
- *Rail industry skills* – The development of a suite of postgraduate training programs in identified skills shortage areas, including railway signalling, civil infrastructure, rollingstock engineering and operations management. The programs offered will fast-track engineers' and managers' educations, comparable to six or seven years of on-the-job training

THE CHALLENGE: SUPPORTING QR'S CUSTOMER-FACING LINES OF BUSINESS

- *'Health cards'* – The development of 'health cards' to detect vehicle and rail track faults, capture vehicle responses and ultimately reduce the risk of train derailments
- *Bogie rotation management* – An investigation into reducing centre bowl friction through the use of new centre bowl liner materials, dry lubrication or changes in transition curve design and cant deficiency
- *Rail track design and construction* – An investigation into rail track design and construction with an emphasis on ballast formation and the use of recycled ballast and geosynthetics
- *Dynamic rescheduling* – A hardware and software system to assist rescheduling and increase capacity on long haul networks
- *Level crossing safety* – The development of education programs for the highest risk road-user groups, including truck drivers, and younger and older drivers
- *Allowable cant deficiency levels* – An investigation into the safe level of cant deficiency to determine whether train speeds could be increased without impacting safety or track maintenance costs
- *Timber sleepers* – An investigation into the use of plantation softwood timber for railway sleepers rather than existing old-growth forest hardwood timbers
- *Fuel additives* – An assessment of the impact of diesel fuel additives on locomotive performance and operation
- *Assessment and strengthening of rail bridges* – The use of an innovative aeronautical engineering technique to save the industry millions of dollars by strengthening rail bridges
- *Management and assessment of rollingstock* – A project that aims to determine the remaining life of a wagon before maintenance failure.

COOPERATIVE RESEARCH CENTRE FOR RAIL INNOVATION

During the year QR personnel worked closely with representatives from the newly funded second-phase CRC for the rail industry, the Cooperative Research Centre for Rail Innovation, to ensure its research program meets QR's ongoing research needs during the coming seven years.

Going forward, QR representatives will contribute to a final transition year for both CRCs from 1 July 2007 to 30 June 2008, as the Rail CRC's research projects wind down and the new CRC for Rail Innovation finalises its comprehensive research program on behalf of the Australian railway industry.

DESIGN AND CONSTRUCTION PROJECTS

QR is also involved in these design and construction projects:

Sleeper Laying Machine Concepts

Benefit: Productivity

This project seeks to improve the speed of laying new sleepers and the alignment of the sleepers laid so that staff do not need to make adjustments when rail is placed onto them. This will improve the speed and quality of track renewal and construction. The design will also reduce the workload on the plant operator.

Universal Set of Rail Lifting Tongs

Benefit: Safety

Previous sets of rail tongs have proven to be unreliable and easily damaged when lifting and pulling rails. This design seeks to improve their strength so that they do not fail under normal use.



AT QR, WE BELIEVE ZERO HARM IS A GOAL WE ARE ALL ACCOUNTABLE FOR ACHIEVING. OUR ZERO HARM BELIEF GOES BEYOND OUR WORK ENVIRONMENT – IT IS PART OF OUR DAILY LIFE, OUR FAMILIES, OUR FRIENDS AND OUR COMMUNITY. IT IS A WAY OF THINKING, DOING AND BEING.

ZERO HARM IS A JOURNEY TOWARDS:

- ZERO INCIDENTS
- ZERO INJURIES
- ZERO WORK-RELATED ILLNESSES
- ZERO ENVIRONMENTAL INCIDENTS.

Every person within QR is responsible for safety and security. To ensure we constantly strive to improve our safety performance, QR launched our QR Strategic Safety Plan 2005-2010 in 2005. The plan sets clear performance objectives for employee safety, operational safety, passenger safety, public safety, security and emergency management, and safety systems. QR is now two years into the five-year safety plan.

EMPLOYEE SAFETY

PERFORMANCE

Lost Time Frequency

QR's Lost Time Frequency Rate (number of injuries where time is lost per million hours worked) continues to improve, decreasing by approximately 40% over the past five years and showing a significant improvement over 2005/06.

Work to improve record keeping with regard to lost time injuries has also been successful, providing more accurate data. The peak in 2005/06, for example, resulted from reprocessing that year's records and drawing new data from SAP Payroll.

Injury Downtime

QR's Injury Downtime Rate (hours lost as a percentage of total hours worked) has ranged between 0.30 and 0.35 over the past five years, although a more positive trend is evident in 2006/07.

MAJOR INITIATIVES

ZERO Harm Strategy

Since early 2007, QR has made significant progress towards adopting a ZERO Harm Strategy. ZERO Harm is founded on the belief in and commitment to five fundamental principles:

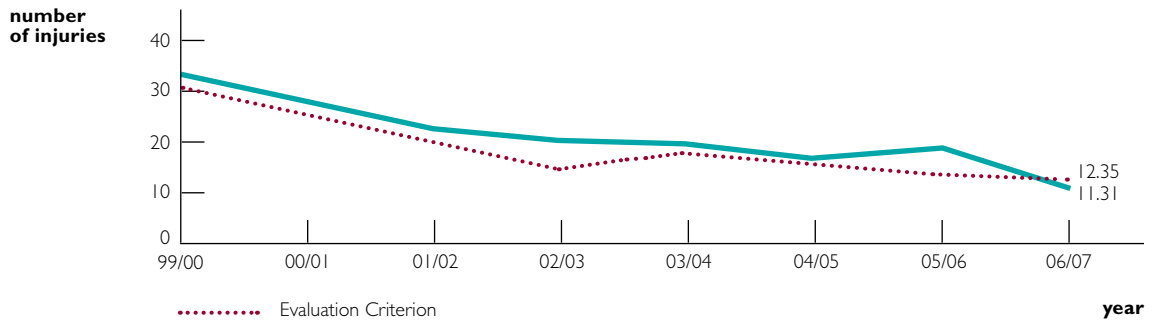
- All workplace fatalities, injuries and diseases are preventable
- No task is so important that it cannot be done in a safe manner
- We seek to identify all foreseeable hazards and manage the risk associated with them
- Everyone has a personal responsibility for the health and safety of themselves and others
- Our health and safety performance can always improve.

Key stakeholders from across QR have participated to formulate the ZERO Harm Vision, which was launched during Rail Safety Week (22-26 July 2007). The vision clearly articulates our goal – zero incidents, zero injuries, zero illnesses and zero environmental incidents.

Furnace handler, Rodney, checks the temperature of a furnace at RACS Redbank.

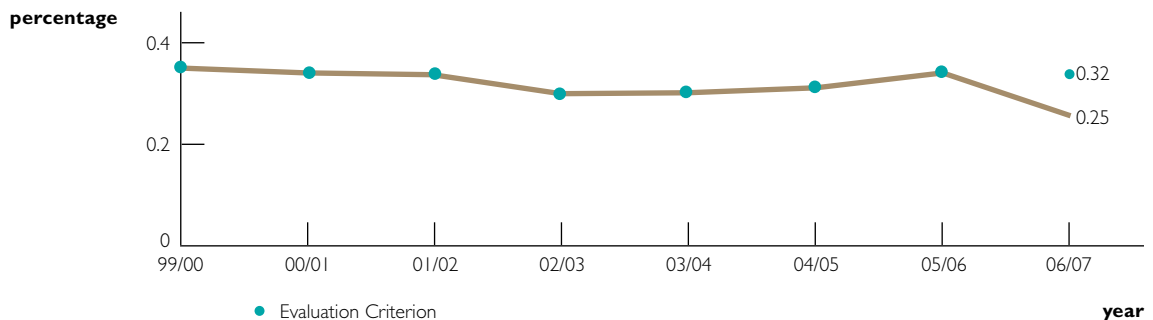


LOST TIME FREQUENCY



Lost Time Frequency Rate = No. Lost Time injuries per Million Hours Worked

INJURY DOWNTIME



Injury Downtime Rate = Hours Lost/Total Hours Worked (%)

OPERATIONAL SAFETY

Operational safety relates to the safe management of rail operations on the network and is specific to this industry.

PERFORMANCE

Derailments

QR's overall Derailment Rate (number of derailments per million train kilometres) for 2006/07 was 0.67, which is better than the target of 0.77.

The target is a diminishing value, which represents continuous improvement each year. From year to year, however, there may be fluctuations in the actual rate.

The slight increase on the 2005/06 rate of 0.6 is within normal variance and still consistent with an overall long-term reduction in derailments.

Signals Passed At Danger

QR has made a significant additional effort to manage the rate of Signals Passed At Danger (SPADs) since an increase became evident in the Brisbane suburban area in early 2006. This effort has had positive results, with the overall SPAD

Rate (Signals Passed At Danger per million train kilometres) for 2006/07 decreasing to 2.26 from 2.51 in 2005/06. This year's result is also better than the target of 2.48.

MAJOR INITIATIVES

Safety Management System Rewrite Project

QR follows a policy of continuous improvement in our operational safety performance. A cornerstone in this method is our formal Safety Management System (SMS), which provides QR with a modern safety management system and safety culture.

The Risk Unit's SMS Rewrite Project commenced in late 2006. It aims to review and consolidate the current SMS, keeping it in line with organisational changes and national issues.

Tilt Train Recovery Program

On 15 June 2007, the Tilt Train Recovery Program concluded with the return of all four trains to high-speed service (maximum 160km/h). The Recovery Program

OPERATIONAL SAFETY

incorporated a review of the Tilt Train safety cases as well as the review and implementation of recommendations from internal and independent investigations into the derailment of the Cairns Tilt Train in 2004.

National Standards for Health Assessment

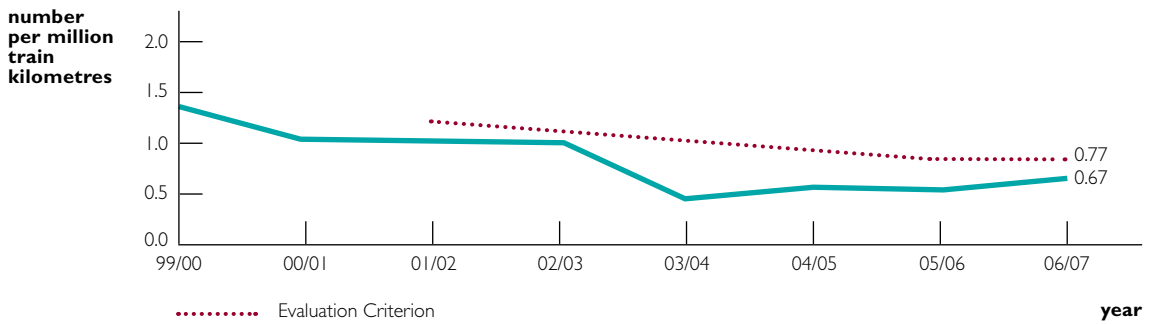
QR began implementing the National Standards for Health Assessment of Rail Safety Workers in October 2007. This standard replaces QR's existing medical fitness

standards and presents a number of benefits to workers and QR, including:

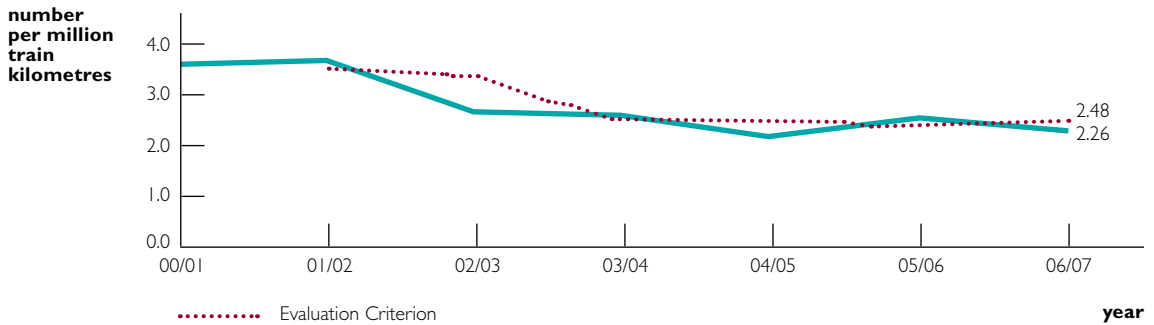
- Assisting workers to identify health issues early
- Referring workers for appropriate management
- Minimising the impact on our workers' ability to perform rail safety work.

Staff who were previously assessed under the QR standards are being progressively assessed under the new national standard as their assessments under the old standard expire. New candidates are being assessed on referral by their relevant business group.

DERAILMENTS



SPADS



Note: SPADs data excludes third party operators, QR's Infrastructure Services Group and QR SPADs in yards or sidings.



PASSENGER SAFETY

QR continues to have an enviable passenger safety record. Public safety campaigns have helped to raise awareness of potential risks and have been instrumental in keeping passenger and public injury rates low.

PERFORMANCE

QR's passenger safety performance remains exemplary, with no passenger fatalities due to QR train operations in the past 13 years. The 2006/07 Passenger Injury Rate (number of injuries per million passenger journeys) was comparable to the result from 2005/06, and significantly less than the five-year average.

MAJOR INITIATIVES

RailSmart

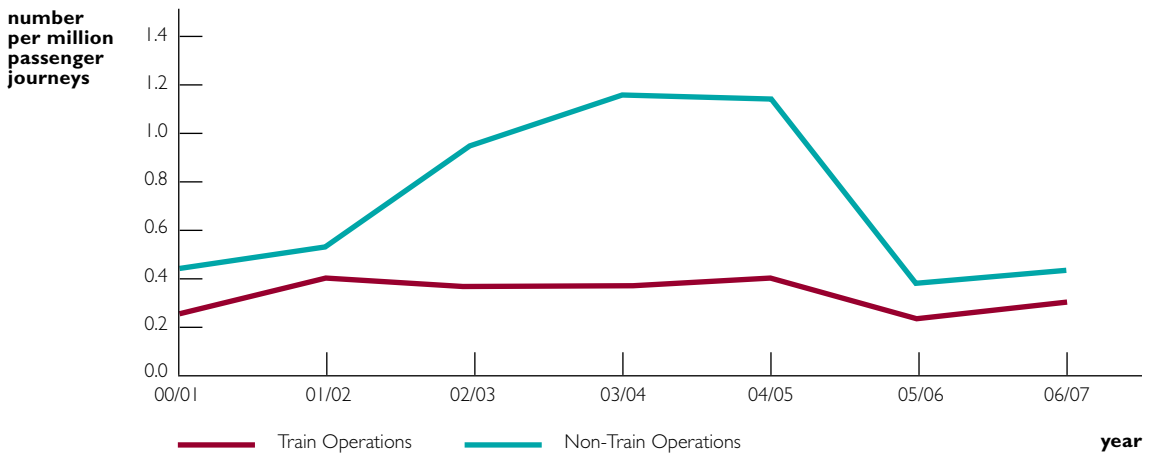
Under the QR RailSmart branding, a series of posters was developed to draw passengers' attention to the risks

associated with slips, trips, and falls, getting caught in train doors, and breaching the yellow safety line on platforms. Television and media material was prepared as part of the 2007 National Rail Safety Week.

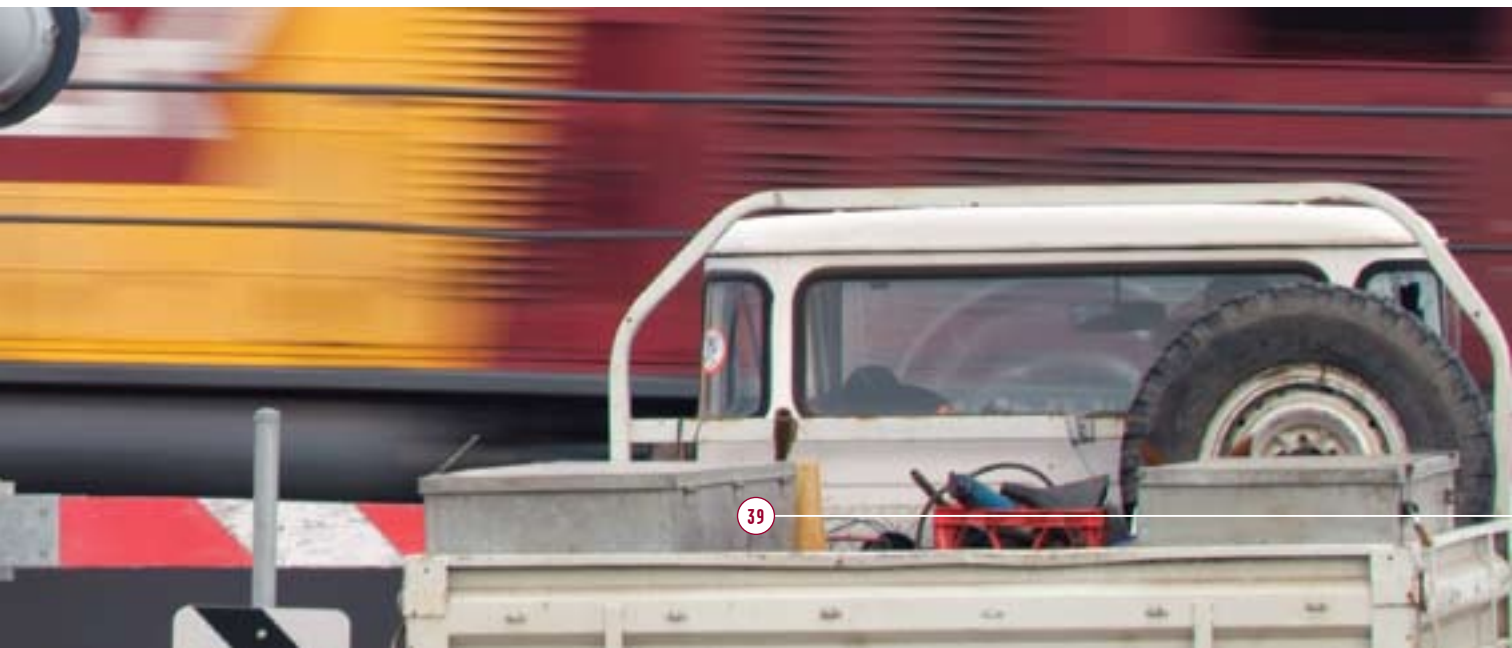
“Don't Say You Didn't Know” Campaign

The “Don't Say You Didn't Know” campaign was introduced at a risk-prioritised list of eight stations in early 2006. The campaign comprised education via posters, postcards, metal signs, yellow signs under the platform coping stones and school visits, and enforcement by Queensland Police Service Rail Squad and QR Transit Officers. Priority stations have been identified for attention during 2007, and designs are currently being developed for the second-generation campaign. The new campaign will be introduced to prioritised stations across the Brisbane suburban area by October 2007.

PASSENGER INJURIES



QR continues to work with the public on ways to eliminate incidents at the interface between road and rail.



PASSENGER SAFETY



IN FOCUS

LOOKING AFTER OUR CUSTOMERS

The welfare of our customers is of the highest importance to QR. To ensure our customers feel safe when travelling on the Citytrain network, even at night, QR has implemented a number of safety measures, including:

- Approximately 55 members of the Queensland Police Service Railway Squad regularly patrol the Citytrain network as part of a strategic partnership with QR
- A team of 110 Transit Officers provide customer assistance and a visible presence on the network
- Selected after-dark services are nominated as Guardian Trains, and are patrolled by private security personnel
- More than 30 Citytrain stations are part of the After Dark program, with Customer Service Officers present on selected nights to provide customer assistance and a visible presence
- Approximately 5,500 surveillance cameras are installed on all suburban trains and at the majority of stations and car parks.

Queensland Police Railway Squad's Senior Police Liaison Officer Graeme Finn and Senior Constable Pieta Mulvey, conduct train patrols on the Citytrain network.

PUBLIC SAFETY

QR culture is based on the premise that we do not accept deaths and injuries on our network. This requires constant vigilance and the implementation of public safety strategies.

PERFORMANCE

Over the past decade, QR's efforts in public education, level crossing improvements and corridor security have resulted in a long-term downward trend in public fatalities. 2006/07 represented a significant improvement, with fewer than half the number of public fatalities recorded in the previous year.

The level crossing incident (level crossing collisions per million train kilometres) result for 2006/07 is in line with the five-year average and below the evaluation criteria.

MAJOR INITIATIVES

Road-Rail Interface Strategy

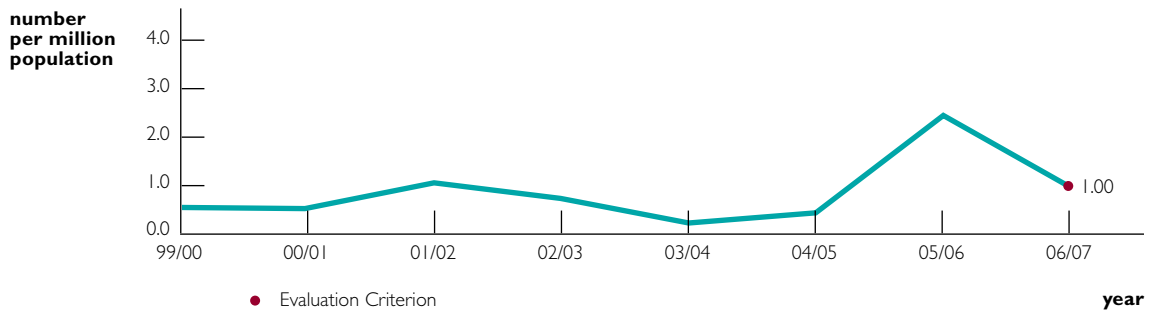
Following extensive consultation, QR Network Access has developed the Road-Rail Interface Strategy, which recognises that level crossings are a shared risk between the railway and road authorities. The strategy is in the final draft stage and will shortly be disseminated to stakeholders for comment.

Level Crossing Awareness Programs

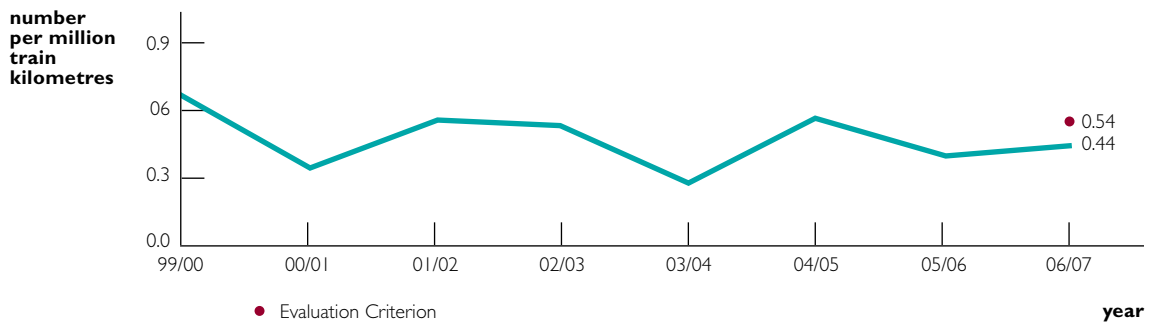
Despite the long-term downward trend, level crossing collisions remain a continuing concern. QR is involved in national education efforts and is planning targeted education to help modify road-user behaviour and make people aware of the potential risks if road rules are not obeyed.

A number of television advertisements were shown in August 2006 and again during the 2007 National Rail Safety Week.

PUBLIC FATALITIES



LEVEL CROSSING COLLISIONS



Security, Emergency Management and Business Continuity

QR places the highest priority on security, emergency management and business continuity planning. Due to the dynamic nature of QR's external environment, the measures employed to manage these issues require vigilance, flexibility and specialist knowledge.

On a national level, QR plays an active role in the development of policy and best practice for the rail industry. This involvement reinforces our commitment to protecting our customers, staff and operations, while at the same time contributing to the improvement of industry-wide processes surrounding security, emergency management and business continuity.

Involvement in local and State-level exercises over the past year has strengthened QR's emergency response, disaster and crisis management capability. We use these

exercises and other well-developed information sharing programs to forge improved relationships with various State and Commonwealth departments and agencies.

QR cooperates closely on emergency management and business continuity issues with Queensland Transport, the Commonwealth Department of Transport and Regional Services, the Queensland Police Service, Department of Emergency Services and other similar agencies.

QR has identified security, emergency management and business continuity risks at the corporate level, and uses this information to develop overall strategic management objectives. QR continues to implement measures to reduce risks to a level at which they can be effectively managed.



SECTION 4

THE CHALLENGE: A SUSTAINABLE BUSINESS

OUR PEOPLE

With 14,000 employees in approximately 300 job categories, spread across more than 500 locations nationwide, QR is a dynamic transport industry employer. Our people are the core of our competitive advantage, and we are committed to treating them with respect and engaging them in our quest to provide continually enhanced customer service.

QR's emergence as a significant national employer provides a wide range of opportunities for our people. A common observation from new recruits gave us the inspiration for the successful and ongoing "More than I'd imagined" advertising campaign that ran throughout 2006/07. This campaign delivers a message to the market that QR is about more than driving trains – we are a highly sophisticated, diversified commercial organisation with a national footprint.

In an industry characterised by high turnover, QR continues to foster a more stable workforce than the national average. We seek to significantly improve the number of women joining the organisation, and to change the stereotype of the rail industry being predominantly male. QR is convinced that diversity, characterised by fresh approaches to business challenges, is one of the keys to a vibrant future.

WORKFORCE CAPABILITY

Building the right workforce capability is a major priority for QR. Central to this is our ability to attract and retain people with the talent needed to sustain QR's competitiveness in the national transport market.

During 2006/07, QR addressed the talent challenge in a variety of ways – through systematic workforce planning, targeted recruitment campaigns, our new employer image and employee value proposition, accelerated development programs, health and wellbeing initiatives, and reviewing remuneration and incentive provisions.

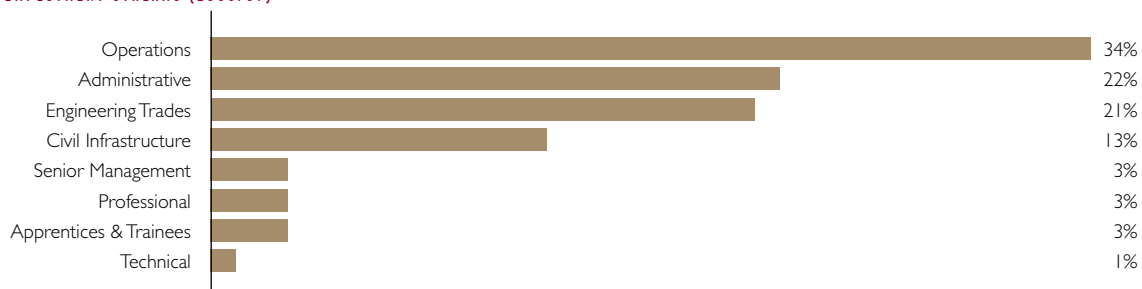
Drawing on a number of sources of internal and external research, a QR Capability Framework was designed to define the leadership capabilities required to drive a sustainable, customer-focused business. The framework details the behaviours, knowledge, skills and abilities that QR is looking for in current and future leaders to drive superior performance at each level of leadership.

WORKFORCE PROFILE

NUMBER OF YEARS EMPLOYED BY QR (2006/07)



EMPLOYMENT STREAMS (2006/07)



OUR PEOPLE

A CULTURE BASED ON VALUES AND PERFORMANCE

In early 2006/07, QR communicated the results of the 2006 QR Values and Behaviours Survey, to which more than 6,600 employees responded. Overall, the survey results were very positive, indicating that employees considered all QR values to be "very important" and believed QR had improved in performance since the previous survey in 2003.

Significantly, 81% of responding employees agreed that QR lives our values.

Since 2003, QR was judged to have improved most in:

- Performance management
- Recruitment and selection
- People matters.

These improvements can be attributed to systematically and rigorously addressing the issues identified in the 2003 survey. Building on the good work already done, QR will continue to refine our approach in these areas.

Foremost among the topics identified by employees for further improvement were:

- Customer service
- Change management
- Creativity and innovation.

QR has embarked on a structured process to address these areas.

BUILDING CAPABILITY

RECRUITMENT AND SELECTION

Operating under the QR>Careers banner, QR's Employment Centre managed the recruitment and selection of more than 2,000 staff during 2006/07. This centralised recruitment service is realising economy-of-scale benefits for QR, and ensuring a more standardised approach to filling positions.

Some of the significant activities coordinated by the Employment Centre in 2006/07 included apprenticeship, traineeship and graduate recruitment intakes.

The first school-based apprentices started working with QR during the year. The arrangement enables students with a strong vocational interest in a trade career to embark on an apprenticeship while still completing their high school education.

PERFORMANCE MANAGEMENT

Performance Management at QR continues to mature, focusing on the alignment, development and measurement of performance throughout the business. With a strong focus on accountability and results, the Performance Management process is supported by robust online technology, branded *my QRPerformance*. The process delivers an accurate picture of individual performance and its impact on QR's overall success, strengthening the link between accountability and performance outcome. This is consistent with QR's determination to have a strong performance culture.

SUCCESSION PLANNING

QR launched an Emerging Leaders development program during 2006/07. The program targets high-potential candidates for future senior roles, reflecting the organisation's commitment to ensuring we continue to have leadership depth in the future. The program has been very successful and will continue in 2007/08.

EMPLOYEE COMMUNICATION

QR has a dedicated internal communication team who work hard to improve communication with employees, using a variety of methods. In 2006/07, QR increased the number of face-to-face communication events involving executive managers including the CEO.

The aim is to ensure our staff understand the strategic direction of the business, and how they can contribute to QR's day-to-day performance and long-term success.

A significant event in the latter part of 2006/07 was a farewell tour by the CEO, Bob Scheuber, prior to his retirement from QR. This gave employees an opportunity to farewell Mr Scheuber after his six-and-a-half-year tenure as CEO, and a total QR career spanning more than 30 years.

WORKPLACE RELATIONS

QR recognises the importance of constructive industrial relationships, and is committed to maintaining a consultative rapport with relevant unions. QR continues to support a mutual gains collective bargaining approach.



Community Education Officer, Peter, supported by RailSmart mascot Spike, talks to students at Mt Archer State School in Rockhampton about rail safety.

OTHER INITIATIVES

ORGANISATIONAL HEALTH AND WELLBEING

The strong link between employees' health and wellbeing and an organisation's performance and sustainability is widely acknowledged. QR therefore offers our employees a range of activities, events and services promoting the benefits of physical, emotional and organisational wellness.

Where feasible QR advocates a preventative approach, providing opportunities for employees to participate in fitness assessment and enhancement programs. The organisation also provides remedial assistance, such as counselling services.

In addition, QR encourages employee participation in annual events such as Men's Health Week, International Women's Day, Mental Health Week and NAIDOC Week.

EQUAL OPPORTUNITY

QR supports Equal Employment Opportunity for all Aboriginal and Torres Strait Islanders people, women, people from non-English speaking backgrounds, and people with disabilities.

AWARDS AND RECOGNITION PROGRAMS

QR publicly acknowledges exceptional employee performance through a number of awards and recognition programs.

The newest award – the Bronwyn Morris Award for Women in Leadership – takes its name from QR's previous Chairman, who completed her final term of office at the end of 2005/06. Ms Morris's encouragement and support for women in the transport and logistics sector has been recognised by QR through this perpetual award. The recipient will be announced at a special ceremony in July 2007, and will take part in a tailored development program as part of the award provisions.

OUR COMMUNITIES

QR aims to enhance the quality of life of individuals and the communities in which we operate. We engage in community and commercial sponsorships, support staff fundraising activities, and provide in-kind support to initiatives and projects that are in line with our community objectives.

COMMUNITY EDUCATION

QR COMMUNITY EDUCATION UNIT

QR is the only rail company in Australia with a dedicated Community Education Unit. Through professional presentations and education programs, the Unit promotes rail safety and responsible behaviour on trains and rail property to schools and community groups throughout Queensland.

During 2006/07, the three full-time Community Education Officers in the Unit visited 410 schools and 31 community groups throughout Queensland, speaking to more than 100,000 young people about rail safety.

Building on the overarching RailSmart safety campaign, the Community Education Unit has rolled out the RailSmart message throughout Queensland, with help from the mascot 'Spike'. New RailSmart packs, featuring

posters, stickers, lanyards and collectable swap cards, have been distributed widely to reinforce the RailSmart safety message.

COMMUNITY-BASED ACTIVITIES

UPGRADE OF BUNDAMBA RAIL STATION

During the year, QR completed a \$2 million upgrade of Bundamba's historic rail station. The upgrade preserved the unique features of the original station, while delivering a modern facility that meets the community's needs.

Built in 1896, the original timber-framed station had been damaged by the combined tyranny of time and termites. By working closely with heritage advisers, QR was able to ensure only a small section of the old station building was demolished, while the rest was refurbished and transformed into a waiting shelter.

A new state-of-the-art station building was constructed on the Brisbane-bound platform. It features leading-edge security technology and improved accessibility for passengers with disabilities. The station also features extensive art works as part of QR's positive pARTnerships project.



IN FOCUS

QR SAFETY ORIENTATION DAYS

During the year QR conducted Safety Orientation Days for intellectually disabled and visually impaired children and for English-as-a-second-language students from Milpera State High School.

The initiative aimed to inform students how to stay safe on trains and platforms, and to increase their awareness and understanding of the Citytrain network.

Under the expert guidance of QR's Community Education Unit and Transit Officers, the students were given the opportunity to explore a Citytrain carriage, platform and station. The students were encouraged to orient themselves with door controls, seating configurations, onboard emergency assistance phones, yellow safety lines and the Next Train Information machines on the platform.

QR's Community Education Unit also talked to the students about safety procedures, disability access and appropriate train behaviour.

Queensland Police Railway Squad Crime Prevention Liaison Officer, Senior Constable Penelope Webb, talks to students about rail safety at Roma Street Station.



QR Red Army members catch the Reds Express to the game.

SPONSORSHIP

QR is in the second year of our five-year sponsorship of Queensland Rugby, which includes naming rights sponsorship of the QR Reds. The partnership gives QR valuable opportunities to be involved with communities at a grassroots level and to deliver rail safety messages. It is also used to promote QR's passenger and freight products, build relationships and develop a national brand presence.

QR REDS RAIL SAFETY AMBASSADORS

During the year, the QR Reds helped deliver QR's rail safety message, talking to children at numerous schools and hospitals across Queensland about the importance of being RailSmart.

The use of high-profile sports players as Rail Safety Ambassadors has proven to be a very effective means of delivering safety messages to children.

QR REDS EXPRESS

In February 2007, QR launched the QR Reds Express, a three-car Citytrain emblazoned with a 30-metre decal featuring images of QR Reds players.

Operating across the Citytrain network, the Express aims to raise awareness and support for the QR Reds, particularly in the lead-up to home games.



IN FOCUS

POSITIVE PARTNERSHIPS

During 2006/07, a number of Citytrain stations were transformed as part of QR's positive pARTnerships project. The project aims to give local communities a greater sense of pride and ownership in their rail infrastructure, while creating a more pleasant environment for our passengers.

As part of the project, local artists, community groups and schools work together to transform appropriate surfaces such as walls, overpasses and bicycle lockers with images of local life, history and rail safety.

During 2006/07, several stations were involved in the positive pARTnerships project, including Hemmant, Milton, Morayfield, Nambour, Wynnum and Auchenflower.

positive pARTnerships artist, Chrissy, and school student, Lachlan, pictured at the Auchenflower project.

OUR COMMUNITIES



IN FOCUS

'I SEE REDS' REGIONAL TOUR

In 2006/07, QR launched the 'I See Reds' Regional Tour. A key element in QR's commitment to fostering grassroots rugby in regional Queensland, giving local communities the opportunity to meet top-level rugby players.

As part of the 'I See Reds' tour, QR Queensland Reds players participated in rugby clinics at selected schools and clubs at which children could improve their skills. During the two-day tour, approximately 4,000 children between the ages of seven and 14 took part.

As QR's rail safety ambassadors, the QR Reds players also took the opportunity to highlight the importance of rail safety to young Queenslanders. Children in each location received RailSmart packs to promote rail safety and responsible behaviour.

The 'I See Reds' tour visited 12 locations throughout Queensland, including Cairns, Townsville, Mackay and Sarina, Rockhampton, Gladstone, Bundaberg, Longreach, Emerald, Mt Isa, the Sunshine Coast and Gold Coast.

Reds players, AJ Gilbert and Clinton Schifcofske, talk to students at Emerald State primary school about rail safety during the 'I See Reds' tour.

COMMUNITY ENGAGEMENT

CELEBRATING RAIL HISTORY

During the year, QR unveiled the first stage of the Rockhampton Interpretative Centre, a major project honouring the city's rail history.

The centrepiece of the launch, an historic RM16 rail motor, was fully restored by QR's Heritage team and staff at Rockhampton's RACS workshop. Entering service in 1933, the rail motor was the personal rail inspection vehicle of the General Manager of the Rockhampton region, and was used to survey the rail lines in the division.

QR also participated in several rail anniversary events around the State, including the centennial celebration of rail in Julia Creek and the 125th anniversary of the first passenger train service to Sandgate.

COMMUNITY CONSULTATION

Community consultation gives local people the opportunity to participate in decisions that affect their community. QR is committed to conducting community consultation before any proposed rail developments or changes to service delivery, outlining the costs and benefits to the community. Through feedback, ongoing consultation and negotiation, we aim to continually improve our services and provide value to communities, our customers and our shareholders.

OUR ENVIRONMENT

QR is committed to ensuring that rail remains the most environmentally sound method of large-scale land transportation. We strive to minimise the impact of our activities by constantly looking for ways to improve our environmental performance.

PERFORMANCE

Environmental Incidents

A total of 90 environmental incidents occurred this financial year. Of these, four major incidents were reported including:

- The derailment of five wagons of gypsum near Longreach. The gypsum was recovered for reprocessing by the owner
- A freight train derailment in inner west Sydney resulted in the spillage of 1,000 litres of diesel fuel into an adjacent dry watercourse. The bulk of the lost fuel was recovered from the watercourse, and environmental harm was kept minimal due to an effective response. The New South Wales Environmental Protection Authority was satisfied with the response and outcomes
- A derailment at Birralee near Collinsville in North Queensland resulted in the spillage of 3,000 litres of

diesel on the corridor. The spill was effectively contained and managed within the corridor with no off-site impact

- Without proper authority, QR employees accessed private land that was subject to Wet Tropic Permit conditions. Investigations revealed that no environmental harm occurred. QR and the property owner subsequently resolved the issue of access authority and compliance with permit conditions.

Greenhouse Gas Emissions

QR has been a member of the Greenhouse Challenge Plus for the past seven years. Over that period, QR has abated greenhouse gas emissions equating to 1.3 million tonnes CO₂-equivalent. This is roughly equivalent to taking 300,000 cars off the road for a year.

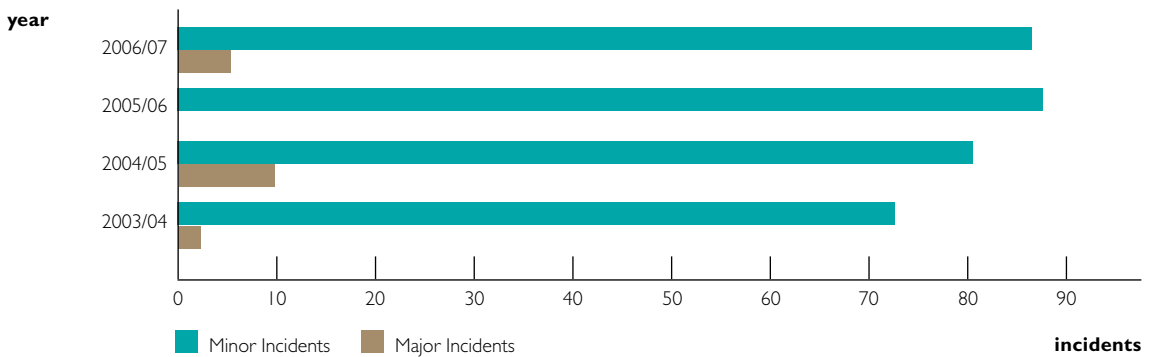
Due to a lag in reporting, this report only contains greenhouse gas information up to 2005/06.

MAJOR INITIATIVES

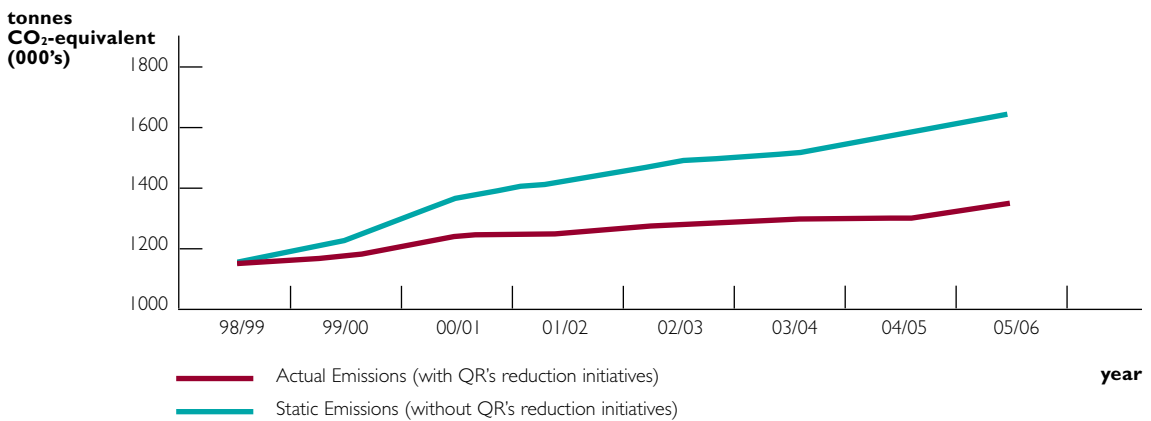
Environmental Training

QR continues to improve employee awareness and capabilities through comprehensive environmental training. A key focus of this year's program was the delivery of a

ENVIRONMENTAL INCIDENTS



GREENHOUSE GAS EMISSIONS



Comparison of actual emissions to static emissions.

OUR ENVIRONMENT

comprehensive package for erosion and sediment controls, which was attended by 258 project managers and field personnel.

Partnerships and Alliances

QR continued to demonstrate our commitment to sustainability as an integral part of doing business by inviting world famous scientist and environmental commentator, Dr David Suzuki, to talk at QR's Global Futures Forum in Brisbane in October 2006. The forum was designed to stimulate thinking and debate around global sustainability, environmental and social issues, with a focus on the transport industry.

Dr Suzuki gave a challenging and thought-provoking address to an audience of approximately 130 people including members of QR's Board, Senior Executive, management and staff. In addition, many of QR's key business partners were invited, including Ministers, customers, suppliers, regulators and industry alliance partners.

In May 2007, QR strengthened our alliance with the Environmental Protection Agency (EPA) by co-hosting David Gershon's visit to Brisbane for the ClimateSmart Living Workshop. David Gershon, an international expert in environmental behavioural change and author of *The Low Carbon Diet*, presented a workshop examining techniques for empowering individuals to take action on climate change issues. Our support of the program aligns with the intent of the QR/EPA Sustainability Alliance, which seeks the broader engagement and participation of key stakeholders on sustainability issues.

Community Concerns

In 2006/07 the number of environmental complaints reported decreased from 493 to 320. This significant reduction can be attributed to a 30% decrease in noise complaints (from 246 to 169), primarily due to the implementation of the Network Noise Management Plan. However there has been an increase in vegetation related complaints over the past two years, primarily due to overgrown grass.

Coal Dust

While the coal business is critical to the Central Queensland economy, QR also understands that we need to manage and minimise impacts on the community.

In late 2006/07, QR finalised Terms of Reference with the EPA for a detailed assessment of the impact of coal dust from trains in Central Queensland.

Noise Barriers

In implementing our Network Noise Management Plan, QR constructed two kilometres of the four kilometres of noise barriers that were originally planned. The delay was due to contractors commencing work late and site constraints. We expect to complete the remaining two kilometres of noise barriers by the end of October 2007.

During the coming year, we will continue to install noise barriers on construction projects between Corinda and Darra and Caboolture and Beerburrum.

Code of Practice for Railway Noise Management

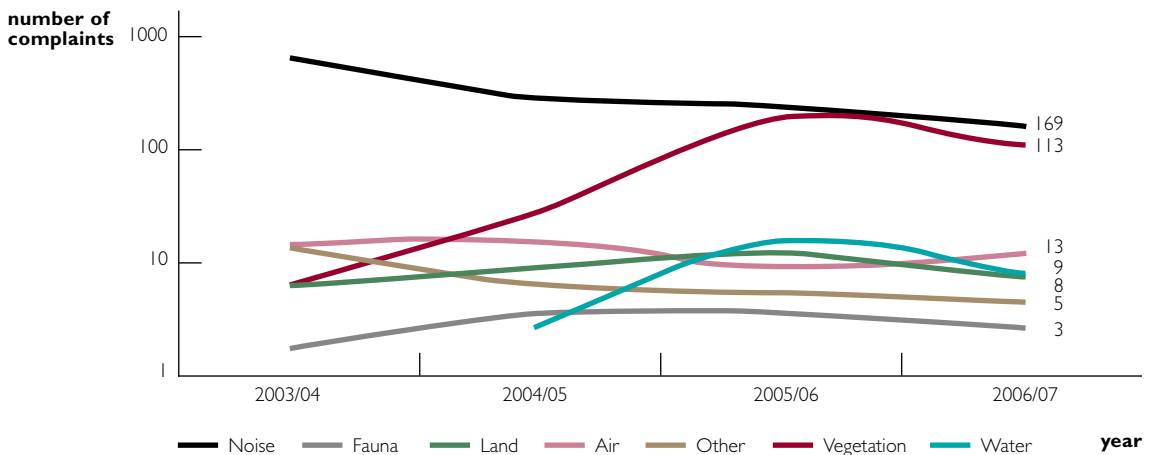
Towards the end of 2006/07, QR formally submitted our revised Noise Code to the EPA for the endorsement of the Minister for Environment. It is expected that the Code will be implemented in 2007/08.

Energy Conservation

Due to the amount of energy QR consumes, we are obliged to meet the requirements of the Energy Efficiency Opportunities Act. Corporations that used more than 0.5 petajoules of energy during 2005/06 must be registered for Energy Efficiency Opportunities. QR registered for the program in March 2007.

During 2007/08, QR plans to implement energy efficiency programs both to comply with the legislation and reduce our total energy profile.

COMMUNITY CONCERNS (COMPLAINTS RECEIVED IN 2006/07)



Water Conservation

In September 2006, QR launched our water conservation campaign, 'Not Just a Drop in the Ocean'. The objectives of the campaign are to raise awareness of the severity of the water crisis and what QR must do to meet the requirements of the restrictions, and foster a culture of sustainable water use.

As part of the campaign, QR has implemented a number of initiatives including:

- Installing water tanks at numerous depots across South East Queensland
- Retrofitting all Citytrain stations with water-saving devices in station toilets
- Using recycled water in construction activities
- Installing new water sprays at our Normanby trainwash, which reduced water consumption by 45%.

To date, Central Station has reduced its water consumption by 29%, and Roma Street Station has reported a 49% reduction in water use.

Alternative Fuels

During the year, QR completed a study into the use of B20 biodiesel in a shunt locomotive. Key considerations included fuel efficiency, engine wear, power output and emissions. The

trial suggests there may be environmental and economic benefits associated with the use of biodiesel in locomotives, but further tests are required before a decision can be made on whether to use biodiesel in the locomotive fleet.

In 2006/07, 67% of QR's fuel purchases for our motor vehicle fleet were ethanol-blended fuel (E10).

Significant Habitat and Species Conservation

In December 2006, a 20-hectare QR site along Stuart Creek near Townsville was declared a Nature Refuge under the Nature Conservation Act.

The riparian and flood plain site has been undergoing rehabilitation for 10 years after being over-run with noxious weeds. More than 10,000 local provenance trees have been planted or naturally regenerated at the dramatically transformed site. The declaration and separate title give the area long-term security as land to be used purely for environmental and conservation purposes.

To increase awareness and ensure easy reference for field staff, QR has begun mapping sensitive environmental areas, including declared Fish Habitat Areas, where they overlay QR land. This will be extended in 2007/08 to cover areas such as Potential Acid Sulphate Soils, which occur along the rail corridor.

ENVIRONMENT COMPLIANCE SUMMARY 2006/07

New Development

Legislation

- Environmental Protection Act 1994
- State Development and Public Works Organisational Act 1971
- Environmental Protection and Biodiversity Conservation Act 1999
- Integrated Planning Act 1997

Compliance Performance QR continues to work in compliance with the legislation relating to infrastructure development. No significant environmentally related non-compliances were identified.

Workshop, Depot & Yard Activity

Legislation

- Environmental Protection Act 1994
- Integrated Planning Act 1997
- Environmental Protection Act 1994
- Ozone Protection and Synthetic Greenhouse Gas Management Amendment Regulation 2005

Compliance Performance QR holds 53 Environmental Approvals for ERAs. Under a number of these approvals, QR is required to comply with discharge criteria for treated wastewater, including trade waste and sewage from on-site treatment facilities.

QR monitored all required outfall sites and reports to the EPA as per approval requirements. Some minor non-compliances were detected this year, and QR will continue to apply management strategies that will significantly minimise these events.

100% compliance with reporting requirements under the National Pollutant Inventory.

QR has complied with the requirements of the legislation and continues to work with the Australian Government Department of the Environment and Water Resources to ensure continuing compliance with ozone depleting substances.

OUR ENVIRONMENT

Earthworks**Legislation**

- Environmental Protection Act 1994
- Water Act 2000
- Water Regulations 2002
- Wet Tropics World Heritage Protection and Management Act 1993

Compliance Performance QR continues to work in compliance with the legislation. No significant environmentally related non-compliances were identified in relation to interference with significant habitats and resources.

Infrastructure Maintenance**Legislation**

- Plant Protection Act 1989
- Fisheries Act 1994

Compliance Performance Continued compliance with Department of Primary Industries approved Fire Ant Management Plan.

QR works under a code of self-assessable development for the removal, destruction or damage to marine plants and work in declared Fish Habitat Areas. QR operates under a guideline administered by the Department of Natural Resources and Water for riverine protection when working in non-tidal waterways.

Land Management**Legislation**

- Environmental Protection Act 1994

Compliance Performance QR continues to work in compliance with the legislation on contaminated land. No significant environmentally related non-compliances were identified.

New Legislation**Legislation**

- Energy Efficiency Opportunities (EEO) Act 2005

Compliance Performance QR has complied with the requirements of the EEO Act by completing its registration with the Department of Tourism, Industry and Resources in March 2007.





John B Prescott AC



Cr Paul Bell AM



Robert Holloway

BOARD OF DIRECTORS

JOHN B PRESCOTT AC CHAIRMAN

BCom (Indus Rels), Hon.DSc, Hon.LLD, FAICD, FAIM, FTSE

John Prescott AC was appointed as QR's Chairman on 1 July 2006.

John brings to the QR Board a wealth of experience gained in Australia and overseas. In particular, John served BHP (now BHP Billiton) for more than 40 years, and was the company's Managing Director and Chief Executive Officer between 1991 and 1998.

John is Chairman of ASC Pty Ltd, Patron of the Sunshine Coast Business Council and a director of Newmont Mining Corporation.

John's awards include a Companion of the Order of Australia (1996), Honorary Doctor of Laws from Monash University (1994), Honorary Doctor of Science from the University of New South Wales (1995), and the Australian Centenary Medal (2003).

CR PAUL BELL AM

DEPUTY CHAIRMAN

BBus (Admin)

Paul Bell joined the Board in 1999 and was appointed Deputy Chairman in 2000. Paul is Chairman of the Passenger Services Strategy Committee and is a member of the Audit and Risk Management Committee.

Paul brings to the Board extensive knowledge of regional Queensland, with particular experience in the coal mining industry. He has served Emerald Shire Council as a Councillor for more than 20 years, including nine years as Mayor.

Paul is President of the Australian Local Government Association and the Queensland Local Government Association. He represents local government at the Council of Australian Governments and on a number of ministerial committees. He is also a director of Queensland Local Government Superannuation and Local Buy Pty Ltd.

ROBERT HOLLOWAY DIRECTOR

BE, MAICD

Rob Holloway joined the Board in 2005. He is Chairman of the Remuneration and Succession Committee, a member of the Passenger Services Strategy Committee and a director of On Track Insurance Pty Ltd, a wholly owned QR subsidiary.

Rob brings to the Board significant experience in business management, IT and engineering.

He held senior roles with SingTel Optus as both State Director and National General Manager Professional and Managed Services. This followed a 27-year career in software development, systems sales and general management for the IT industry in Australia, the United Kingdom and North America. Before joining the IT industry, Rob was a civil and structural engineer with the Brisbane City Council.

Rob holds an honours degree in Civil Engineering from the University of Queensland, with further studies in mathematics from the University of Queensland and business administration from York University, Canada. He has completed the Executive Development Program of the Australian Graduate School of Management at the University of New South Wales.

Rob is a member of the Library Board of Queensland and Chairman of an importing and retailing company.



Peter Holmes à Court



Lisa Hunt



Cr Warren McLachlan

PETER HOLMES À COURT DIRECTOR
BA (Hons), MA

Peter Holmes à Court joined the Board in 2006.

Peter brings to the Board extensive local and overseas business experience gained across a broad range of industries from agriculture to the arts.

Peter read law at Oxford University and received his Bachelor of Arts in economics and theatre from Middlebury College, Vermont.

Peter is Chairman of White Bull Holdings (his private investment company) and Executive Chairman of the South Sydney Rabbitohs. He is a member of the Lord Mayor's City of Sydney Business Forum.

LISA HUNT DIRECTOR
BA, LLB

Lisa Hunt joined the Board in 2006. She is a member of the Freight Business Strategy Committee and the Remuneration and Succession Committee.

Lisa brings to the Board comprehensive experience in management, strategy and communications.

Lisa has a background in law and 12 years experience in the transport sector. She has extensive experience in advising Australian governments on regulatory policy, project development and delivery, transport operations and risk management.

Lisa is General Manager, NSW & QLD for Transurban Limited. She oversees Transurban's growth and development activities in New South Wales and Queensland and its major investments in New South Wales, including the Hills M2 Motorway, Westlink M7 Motorway, Eastern Distributor, M5 and M4 motorways.

Lisa represents Transurban on the Board of Infrastructure Partnerships Australia and is a member of the Greater Western Sydney Economic Development Board.

CR WARREN MCLACHLAN DIRECTOR
MAICD

Warren McLachlan joined the Board in 1999. He is a member of the Audit and Risk Management Committee and the Freight Business Strategy Committee. Warren is also Chairman of On Track Insurance Pty Ltd, a wholly owned subsidiary of QR.

As Mayor of Monto Shire, Warren brings to the Board a rural and regional perspective on the broader issues and opportunities for QR. Warren runs his own business, WW&SM McLachlan Consultancy, representing pastoralists on land issues. He is also a Central Queensland beef cattle producer and a qualified Native Title practitioner.

Warren was previously a director of the Central Queensland Ports Authority. He has also been a foundation member, State Chairman and National Farmers' Federation representative of the Cattlemen's Union of Australia, a Councillor on Calliope Shire Council and an inaugural member of the Gladstone Area Water Board.



Dawson Petie



Susan Rix



John West

BOARD OF DIRECTORS

DAWSON PETIE DIRECTOR

FACID, FASFA, Affiliate CSA

Dawson Petie rejoined the Board in 1999 after previously serving as a director in 1991/92. Dawson is a member of the Freight Business Strategy Committee and the Remuneration and Succession Committee.

Dawson brings to the Board significant and wide-ranging experience in government, finance, industrial relations and corporate governance.

Dawson is Chairman of Teachers' Union Health and is a UnitingCare Queensland Board Member.

Dawson has held senior executive positions in government, finance and the union movement, as well as general management roles with Suncorp and QIC. He is a former General Secretary of the ACTU Queensland and has held Board positions with 2KY, QIC, Sunsuper, The National Trust of Queensland and Currumbin Wildlife Sanctuary.

SUSAN RIX DIRECTOR

BFin (Admin), FCA, GAICD

Susan Rix joined the Board in 2005. She is Chairman of the Audit and Risk Management Committee and a member of the Passenger Services Strategy Committee.

Susan brings to the Board significant experience in accounting, tax, corporate governance and business planning.

Susan is a Chartered Accountant with more than 20 years experience. As a Partner at BDO Kendalls, she provides broad-based consulting advice to family-owned businesses and specialises in corporate governance, family councils, succession planning, taxation structures and restructuring.

Susan is a director, Treasurer and former Chairman of the Cerebral Palsy League of Queensland and a Queensland Council Member of the Australian Institute of Company Directors. Susan is also a member of the Audit and Risk Committee, Department of Main Roads and a director of QUT Enterprise Holdings Pty Ltd.

Susan recently completed a six-year term as a director of the Port of Brisbane Corporation during which she also chaired the Audit Committee. Through her directorship, Susan was actively involved in large infrastructure projects including the Port of Brisbane Future Port Expansion Seawall Project. Susan was also a director of the Queensland Rural Adjustment Authority for 10 years, assisting rural and regional Queensland to increase its productivity, profitability and sustainability.

JOHN WEST DIRECTOR

FCILTA

John West joined the Board in 2005. He is Chairman of the Freight Business Strategy Committee.

John brings to the Board significant experience in transport, logistics and business management.

John has more than 30 years experience in the transport and logistics industry, including 20 years with the Mayne Nickless Group where he ultimately attained the position of General Manager Australia for the Transport Management division. He is the co-founder, majority shareholder and Managing Director of Dangerous Goods Logistics Pty Ltd, a national business specialising in general and hazardous storage along with contract fleet distribution.

John has received the Queensland Trucking Association's award for Management Excellence and the Chartered Institute of Logistics and Transport's award for Transport Achiever in the Transport and Logistics Industry.

John is Chairman of the Chartered Institute of Transport and Logistics Association (Australian Section). He is also past president of the Brisbane branch of the Volunteer Marine Rescue Organisation, based at Shorncliffe.



Stephen Cantwell



Graeme Allinson



Brian Bock

SENIOR EXECUTIVE

STEPHEN CANTWELL

ACTING CHIEF EXECUTIVE OFFICER
BBus, Grad Dip TportMMent, MBus,
FCILT, GAICD

Stephen has extensive experience in leading and managing growth and innovation in Australia's rapidly changing rail industry. Stephen's QR executive management positions span operations, business development, corporate strategy and planning, and infrastructure. Prior to being appointed Acting Chief Executive Officer, Stephen was Chief Operating Officer and previously served for five years as Group General Manager, Network Access.

In 2006, Stephen was instrumental in implementing one of Australia's largest and most complex acquisition transactions with the ARG acquisition, which has spearheaded QR's national ambitions.

Stephen has a strong international reputation, representing QR at many national and international forums. He is an adjunct professor with the University of Queensland's School of Information Technology and Electrical Engineering and is also a director of the Cooperative Research Centre for Integrated Engineering Asset Management (CIEAM).

GRAEME ALLINSON

BSc, MBA, CPRM

Graeme was appointed QR Chief Risk Officer in June 2007 and has functional responsibility for risk, compliance, environment, security, emergency management, rail safety and workplace health and safety.

Graeme's career has focused on infrastructure, energy and resources. He worked for the Shell Group of Companies in a range of commercial roles across Europe, the Middle East and Asia. He has since worked with Energex, Ernst and Young, Stanwell Corp in Brisbane and Iluka Resources in Perth, improving risk management practice and application to a range of business issues such as project management and contracting.

BRIAN BOCK

BEng, BCom, FIEAUST, FPWI,
FAIM, MAICD, Grad Cert Legal St
(W'PlaceRel)

Brian has 30 years experience working for QR and successfully managing our technical, environmental, project management and procurement functions. Brian is currently Acting Executive Manager Strategy and Corporate Affairs, and has previously held the roles of Group General Manager Shared Services, Group General Manager Technical Services and Group General Manager Workshops. He is highly experienced in engineering, construction and railway workshop business management.

In his current role, Brian is responsible for coordinating the development of QR's strategic direction and priorities, stakeholder management and corporate marketing initiatives.

Brian is actively involved in several railway industry bodies. He is QR's Board Member on the Rail Cooperative Research Centre, a Board member and past Chairman of the International Heavy Haul Association, and a member of the Board of Management of the Centre for Railway Engineering at Central Queensland University.



Kevin Burgess



Mike Carter



Edward Chung

SENIOR EXECUTIVE

KEVIN BURGESS

B SocWk, MBA, Cert SocSc Research, PhD Candidate, AICD Graduate

Kevin has both private and public sector experience, and a diverse background ranging across mechanical engineering, juvenile justice, HR policy development, leadership development, strategic sourcing, business process management and large-scale change management.

Currently Acting Group General Manager Shared Services, Kevin has been proactively involved in organisational change projects for large government-owned organisations such as the Department of Children's Services and Telecom, where he was the State Manager of Vision 2000 – the largest cultural change ever in Australia. During his 15 years with QR, he has held a variety of roles including Manager Process Improvement and General Manager Supply Division.

An Australian Business Excellence Evaluator since 1996, Kevin has been involved in assessing best practice in more than 20 public and private organisations across a range of industries both in Australia and overseas. In 1994 Kevin won an International Award for his research in the relationship between Total Quality Management principles and culture change. He is also a PhD candidate having completed an extensive study on innovation in supply chains.

MIKE CARTER

BEng, BBus

Mike has held a number of managerial roles in QR over more than 20 years. He is currently Acting Group General Manager of QR Network Access, responsible for the operational and commercial performance, asset management and capital delivery programs of QR's 10,000 kilometre network. He has extensive experience in direct project management and in his present role is overseeing an infrastructure investment program comprising more than 68 major capital projects valued at over \$3 billion. His previous roles have involved work in the passenger, freight and heavy haul rail businesses.

In addition to his work for QR, Mike was a consultant to the London Underground during its restructuring, advising on track-related access issues for private operators. He was also a member of the London Underground Track/Train Interaction Management Committee and provided advice on European rail infrastructure standards.

EDWARD CHUNG

BCom, MCom, CA, FTIA

Edward has been Acting Chief Financial Officer for QR since December 2006. In his role he oversees the finance function for QR. He is involved in strategy development, coordination and assessment, and mergers and acquisitions.

Edward has held a number of senior finance roles in QR including General Manager Commercial Finance, General Manager Finance – Containerised Freight, and Manager Corporate Accounting and Tax. In these roles, he has had responsibility for business group finance functions, investment process, business strategy and planning, and group accounting and tax functions. He was closely involved in the recent acquisitions of CRT Group and ARG and is currently overseeing a number of other potential ventures.

Before joining QR, Edward spent four years in the auditing profession and also two years in a multi-site retail management position.



Lindsay Cooper



Andrew Haynes



Ken Lewsey

LINDSAY COOPER

Assoc Dip MechEng, Grad Cert
Legal St (W'PlaceRel)

Before taking up his current role of Acting Group General Manager Rollingstock and Component Services in February 2006, Lindsay spent nine years as General Manager RACS Rockhampton. He joined QR as a Fitter and Turner at the Ipswich Workshops, and now has an engineering career spanning more than 35 years.

Lindsay brings to the position extensive experience in the rail industry including heavy engineering manufacturing and maintenance, and general shop floor management. His project and change management skills were utilised extensively during the multi-million dollar workshops redevelopment program in 1993, which resulted in the introduction of state-of-the-art facilities across all RACS sites.

Lindsay is a Member of The Workshops Rail Museum Advisory Committee, which provides advice to the Queensland Museum on the preservation of the Rail Museum.

ANDREW HAYNES

BA, LLB, H Dip IS, FCIS, MAICD,
MIPAA

Andrew joined QR as Company Secretary in March 2006. His responsibilities include the provision of the company secretarial function and support to the QR Board.

Andrew was admitted as an Attorney of the High Court of South Africa in 1994 and worked in the areas of personal injury litigation and tax before migrating to Australia in 1997.

Andrew has worked in a number of senior company secretarial, risk and compliance roles in Australian listed companies and multinationals operating in Australia.

KEN LEWSEY

BBus

Ken joined QR as Group General Manager Bulk in 2006 after more than 20 years in the logistics, steel distribution and manufacturing industries. He has significant experience in strategic planning, marketing, business development, business integration and leadership of senior executive teams.

Prior to joining QR, Ken was Managing Director of Cleanaway Industrial (a Brambles company), where he oversaw the successful restructuring and sale of the business to KKR as part of what was Australia's largest private equity deal at that time. He was previously the Regional Director of Brambles Industrial Services, a bulk logistics company that held a joint venture with ARG to service BHP Nickel.

Ken has held many senior and general management roles within the steel industry including companies such as Smorgon Steel and BHP Steel. His major achievements in the steel industry included the merging of Union Steel and Steelmark into a new distribution entity called Smorgon Steel Distribution, which operated from 35 branches across Australia.

In his current role, Ken is responsible for the strategic direction and leadership of QR's national bulk business, which is built around the newly acquired ARG business and headquartered in Western Australia.



Rob McAlpine



Glen Mullins



Clive Oldfield

SENIOR EXECUTIVE

ROB MCALPINE

BE (Civil), MBA

Rob has 25 years experience in the transport and logistics industry, spanning a full spectrum of capabilities from design, planning, construction and maintenance to business strategy, business development, commercial roles and operations.

Rob has led major changes for QR that have greatly improved safety, productivity and customer service in both the passenger and freight businesses.

As Acting Group General Manager of QRNational Intermodal and Regional Freight, Rob is responsible for improving the commercial performance and capability of a portfolio of freight businesses turning over \$350 million per annum. Another key task is to restructure the current group to form two discrete, vertically integrated businesses.

GLEN MULLINS

BEng, BEcon

Glen has extensive knowledge of QR's infrastructure and customer requirements, gained during a 30-year career with QR. Currently Group General Manager Infrastructure Services, he has a diverse background in managing railway infrastructure including investment evaluation, planning, construction, asset management and maintenance.

Glen was General Manager Telecommunications, Group Manager Infrastructure for the Freight Group, and General Manager Network Infrastructure in Network Access. His extensive infrastructure experience has been interspersed with a number of corporate projects leading and managing organisational change. Glen was responsible for the extensive reform of QR's Infrastructure Services, which led to greater efficiency and effectiveness.

CLIVE OLDFIELD

BBus

As Group General Manager QRNational, Clive oversaw the separation of QRNational into three stand-alone businesses – Coal, Intermodal and Regional Freight, and Bulk. In his current role of Group General Manager QRNational Coal, Clive now heads a vertically integrated and more accountable coal-centric business.

This extensive restructure is the latest achievement in Clive's 28-year career in QR. His expertise in the rail transport industry has evolved via extensive exposure to both operational and strategic business processes. His strength in commercial negotiations has helped QR consolidate new business acquisitions and positioned QR as the leading coal transport provider in Australia.

Clive's new strategic focus is on consolidating QRNational Coal, improving capability and throughput capacity across all systems, and working more closely with customers and supply chain partners to ensure the new coal business can meet their needs with greater responsiveness and flexibility.



Lyn Rowland



Michael Scanlan



Andy Taylor

LYN ROWLAND

BA, Grad Dip HR/IR

Lyn joined QR as Executive General Manager Human Resources in October 2003, bringing with her 25 years experience in human resource management. Lyn has seven years private sector experience in mining and light metals, as well as 15 years public sector experience in Victoria and South Australia in the areas of water and local government.

Lyn is responsible for the overall development of QR's human capital capability, our workplace reform strategy and our cultural transition from monopoly business to commercial leader in rail-based solutions.

MICHAEL SCANLAN

BE, Grad Dip Mgt, MBA, FAICD, FAIM, FCILT, AFAMI CPM, MIE

Michael began his QR career in 1974 and has developed broad experience through a wide range of roles involving commercial, marketing, planning, operations and engineering. Michael has worked in all major Queensland regions and businesses, and has successfully improved the coal, bulk freight, regional freight, network access and passenger businesses.

Michael has been Group General Manager Metropolitan and Regional Services, and was the first Group General Manager of QR Network Access. As Group General Manager Passenger Services, Michael is responsible for Citytrain, the State's largest public transport operator. He is also responsible for the Traveltrain, Tourist Train and Heritage businesses.

Michael is actively involved in industry forums aimed at developing passenger transport and tourism. He is a member of the TransLink Advisory Board, the International Association of Public Transport Australia/New Zealand Board, and the CityTrans joint venture Board.

ANDY TAYLOR

BSc (Hons), Grad Cert CEng, MIProdE, MBA

Andy was seconded to the role of Executive General Manager National Development firstly to assist with the integration of ARG, then to troubleshoot strategic problems of concern to the Acting Chief Executive Officer.

Andy joined QR in 2001 after working in senior positions in the manufacturing sector in Australia and the United Kingdom. He also consulted for 10 years, specialising in workplace change and enterprise bargaining.

After joining QR, Andy worked with Q-Link, then with Passenger Services. As Group General Manager Rollingstock and Component Services, Andy focused on transforming RACS's quality, service and cost at our locations at Redbank, Ipswich, Rockhampton and Townsville.

CORPORATE GOVERNANCE

This statement reflects QR's corporate governance practices in the 2006/07 financial year.

In the year in review, QR was a 'statutory Government Owned Corporation (GOC)' by virtue of the Government Owned Corporations Act 1993 ('the GOC Act').⁽¹⁾

QR has adopted the principles and recommendations contained in the Corporate Governance Guidelines for Government Owned Corporations ('the Guidelines').

The Guidelines are intended to provide a framework for GOCs to develop, implement, review and report on their corporate governance arrangements.

Information on QR's corporate governance framework is available in a specially marked 'Governance' section on QR's website.

QR CONFORMANCE WITH CORPORATE GOVERNANCE GUIDELINES

1. Foundations for management and oversight

- The roles and responsibilities of the Board and Board Committees are defined in Charters for each body. The Board reviews these roles and responsibilities annually. Board and Board Committee Charters are available in a specially marked Governance section on the QR website.
- Newly appointed Directors are taken through a formal induction process.
- Directors are issued with a comprehensive Board handbook that details QR and Board operational information, governance requirements and QR policies. The Board handbook is reviewed and updated annually.
- Management's responsibilities are defined and documented in formal position descriptions and performance plans.
- Delegations from the Board to the Chief Executive Officer and from the Chief Executive Officer to management are documented and reviewed annually.

2. Structure the Board to add value

- The Board Directors are appointed by the Governor in Council.
- Directors are considered to be independent and must declare potential conflicts of interest and excuse themselves from discussions on issues where they may have a potential conflict of interest.

- Directors declare their business interests and other directorships and employment roles annually and must notify the Board via the Company Secretary of changes to business interests and appointments.
- Details of Directors' experience and expertise are disclosed in the Annual Report, as is information on attendance at Board and Committee meetings.

3. Promote ethical and responsible decision-making

- QR has a Code of Conduct to guide Directors and employees on compliance with QR's ethical, legal and statutory obligations.

4. Safeguard integrity in financial reporting

- The Chief Executive Officer and Chief Finance Officer certify in writing that the annual QR financial report represents a true and fair view of QR's financial position and that the financial report has been prepared in accordance with Australian equivalent international financial standards.
- The Board Audit and Risk Management Committee reviews the integrity of QR's financial reporting systems. The Board Audit and Risk Management Committee is governed by its own Charter, which is reviewed annually.
- QR has a detailed internal audit plan that is approved by the Board Audit and Risk Management Committee and managed under the auspices of the Chief Internal Auditor, who provides monthly reports to the Board Audit and Risk Management Committee.
- The external audit function is performed by the Queensland Audit Office.

5. Make timely and balanced disclosure

- QR submits detailed quarterly reports to our shareholding Ministers on our performance against the QR Statement of Corporate Intent, which is agreed annually with shareholding Ministers. This is in line with the requirements of the GOC Act.

6. Respect the rights of shareholders

- In line with the requirements of the GOC Act, shareholding Ministers are advised in a timely manner of all issues likely to have a significant financial, operating, employee, community or environmental impact.
- Regular scheduled meetings are held between the Chairman/Chief Executive Officer and the shareholding Ministers, including meetings to advise of outcomes of Board meetings.

⁽¹⁾ On 20 March 2007, the Government Owned Corporations Amendment Act came into force. As a result of this legislative change, all statutory GOCs, including QR, are required to convert to 'company GOCs' and be registered as public companies limited by shares under the Corporations Act 2001.

Shareholding Ministers approved QR converting from a statutory GOC to a company GOC, and QR was registered as a public company limited by shares on 1 July 2007.

- Approval of shareholding Ministers is sought for major investments and expenditure outlays and entry into significant supply or customer contracts where this is deemed appropriate, or is required by legislation or shareholder policy guidelines, including the Office of Government Owned Corporations Investment Guidelines.

7. Recognise and manage risk

- The Board has approved a Risk Management Policy.
- The Board Audit and Risk Management Committee oversees the process for identification and management of risk in QR.
- QR has a Risk Register with risk profiles populated at the various layers of the organisation.
- QR has adopted an enterprise-wide approach to Risk Management.
- QR has a Management Specification that outlines the processes for the prevention, detection and management of fraud within QR, and for fair dealing in matters pertaining to fraud.

8. Encourage enhanced performance

- A whole-of-Board performance review is undertaken annually in addition to individual evaluation sessions between the Chairman and individual Directors. A formal self-evaluation questionnaire is used to facilitate the annual Board performance review process.
- QR Directors are encouraged to further their knowledge through participation in forums such as the Australian Institute of Company Directors.

9. Remunerate fairly and responsibly

- The Board has established a Remuneration and Succession Committee with its own Charter. The Remuneration and Succession Committee reviews and provides recommendations to the Board on the recruitment, retention, remuneration arrangements and termination of the Chief Executive Officer and Senior Executives as well as the performance measurement arrangements for Directors, the Chief Executive Officer and Senior Executives.
- Director remuneration is set by the Governor in Council.
- Senior Executive remuneration is disclosed in the Annual Report in accordance with legislation, accounting standards and government policy.

10. Recognise the legitimate interests of stakeholders

- QR has a stakeholder relationship framework that addresses, among other things, the key issue of communication between QR and our stakeholders. QR's major stakeholders include:
 - Customers
 - Shareholding Ministers
 - Communities
 - Government
 - Business partners.

BOARD OF DIRECTORS

The Board composition during 2006/07, together with details of individual Directors' backgrounds, is set out on pages 54 to 56.

BOARD CHARTER

The Board has adopted a Charter, which clearly defines its role and functions. The key responsibilities of the Board include:

- Formulating strategy at a high level and in partnership with the Chief Executive Officer and Senior Executives, and monitoring the implementation of such strategy
- Appointing and removing the Chief Executive Officer and Company Secretary
- Ratifying the appointment and removal of Senior Executives (including the Chief Internal Auditor) and reviewing succession planning for the Chief Executive Officer and Senior Executives
- Approving performance targets and performance payments paid to the Chief Executive Officer and Senior Executives
- Reviewing and ratifying systems of risk management and internal compliance and control, the Employee Code of Conduct and legal compliance
- Approving QR's annual budget, Quarterly Reports, Corporate Plan, Statement of Corporate Intent and annual Financial Statements, and monitoring QR's financial and other reporting
- Developing and approving QR's policies
- Approving major operating and capital expenditure in excess of the limits delegated to management
- Monitoring and supervising management.

STRUCTURE OF THE BOARD

The size and composition of the Board are determined by the Governor in Council. During the financial year there were nine Directors on the Board, including the Chairman and Deputy Chairman. All Directors are non-executive Directors.

Directors are appointed by the Governor in Council for specified terms. Mr Petie and Cr Bell commenced new terms as Directors on 1 July 2006. Mr John Prescott AC, Ms Lisa Hunt and Mr Peter Holmes à Court were appointed as Directors commencing 1 July 2006. Mr Prescott AC was appointed as Chairman of the Board on 1 July 2006.

For details of the skills, experience and expertise of individual Board Directors, please refer to page 54.

CORPORATE GOVERNANCE

INDEPENDENCE OF DIRECTORS

Directors do not hold shares in QR. All Directors of QR are considered to be 'independent'. The definition of 'independence' is contained in the Board's Governance Charter and is based on the definition contained in the ASX Best Practice Recommendations and enunciated in the Corporate Governance Guidelines for Government Owned Corporations.

The Governance Charter outlines the process for disclosures of interest by Directors. Directors are required to keep the Board advised on an ongoing basis of any interest that could potentially conflict with those of QR. In circumstances where a conflict is believed to exist, the Director concerned does not take part in any decision or consideration of the issue. In addition, the Director will not receive copies of the relevant Board papers.

INDEPENDENT PROFESSIONAL ADVICE

QR has a process in place whereby Directors, either collectively or individually, may seek independent professional advice where it is considered necessary to fulfil their duties and responsibilities. This is done at QR's expense. A Director wishing to seek such advice must obtain the approval of the Chairman.

DIRECTORS' TERMS OF APPOINTMENT

Directors' terms of appointment are determined by the Governor in Council.

Dates of the first appointment of current Directors and term expiry dates are set out in the table below.

DIRECTORS' TERMS OF APPOINTMENT

Director	Date first appointed	Term expires
John B Prescott AC (Chairman)	01/07/06	30/09/09
Cr Paul Bell AM (Deputy Chairman)	01/07/99	30/09/08
Robert Holloway	01/07/05	30/09/07
Peter Holmes à Court	01/07/06	30/09/09
Lisa Hunt	01/07/06	30/09/08
Cr Warren McLachlan	01/07/99	30/09/07
Dawson Petie	01/07/99 ⁽¹⁾	30/09/08
Susan Rix	01/07/05	30/09/07
John West	01/07/05	30/09/07

⁽¹⁾ Served as Director 1991/92; Re-appointed 1999.

DIRECTOR COMPETENCIES

The Board Remuneration and Succession Committee is charged with the task of identifying appropriate programs for director education to enhance director competencies. A budget is approved annually for director education.

A number of Directors are members of the Australian Institute of Company Directors (AICD) and all Directors participate in industry, governance and government forums and attend seminars hosted by the AICD, Chartered Secretaries Australia and other peak professional bodies.

Directors complete a formal induction program upon appointment and are provided with a comprehensive director handbook.

Currently, a whole-of-Board evaluation is undertaken each year, in addition to individual evaluation sessions between the Chairman and each Director. Self-evaluation questionnaires are used to assist in this process.

BOARD MEETINGS

During 2006/07, the Board held nine meetings. The attendance of the Directors at meetings of the Board is set out on the opposite page.

BOARD MEETINGS

Director	Attended	Maximum No. Possible⁽¹⁾
John B Prescott AC (Chairman)	9	9
Cr Paul Bell AM (Deputy Chairman)	7	9
Cr Warren McLachlan	9	9
Lisa Hunt	7	9
Dawson Petie	9	9
Peter Holmes à Court	5	9
Susan Rix	9	9
Robert Holloway	9	9
John West ⁽²⁾	9	9

⁽¹⁾ Six circular resolutions were passed by the Board during 2006/07 and these have not been included in this figure.

⁽²⁾ In the 2005/06 Annual Report, it was incorrectly reported that John West attended 10 out of a possible 12 Board meetings. In the 2005/06 financial year, John West in fact attended 12 out of a possible 12 Board meetings.

BOARD COMMITTEES

To ensure adequate time is provided for the whole Board to consider strategic and performance enhancement issues, the Board has established a number of Committees to assist it in discharging its responsibilities. The following Board Committees operated in 2006/07:

- Audit and Risk Management Committee
- Remuneration and Succession Committee
- Freight Business Strategy Committee
- Passenger Services Strategy Committee.

The membership of Board Committees is made up of a minimum of three and a maximum of five Directors from the Board. The Chief Executive Officer and Senior Executives attend meetings at the discretion of the Committee.

Each Committee has its own formal Charter, which sets out its role, responsibilities, composition, structure and membership requirements. Committees have very limited delegated authority from the Board and their main function is to provide recommendations to the Board on

issues within their purview. The Chairman of each Committee reports to the Board at the Board meeting following Committee meetings.

A review of each Committee's membership and an evaluation of Committee performance are undertaken by the Board on an annual basis at the end of the financial year. A report on Committee activities and the setting of goals for the next financial year is also undertaken at this time.

Audit and Risk Management Committee

The role of the Audit and Risk Management Committee is to:

- Consider matters relating to QR's internal and external audit functions and QR's financial affairs
- Oversee the establishment and maintenance of a system of risk management and monitor the effectiveness of this system
- Review and monitor the operation of QR's compliance program.

The composition of the Committee and attendance at Committee meetings in 2006/07 is set out below.

AUDIT AND RISK MANAGEMENT COMMITTEE

Director's Name	Attended	Maximum No. Possible
Susan Rix (Chairman)	8	8
Cr Paul Bell AM	4	8
Cr Warren McLachlan	7	8
John B Prescott AC	7	8

CORPORATE GOVERNANCE

Remuneration and Succession Committee

The role of the Remuneration and Succession Committee is to review and provide recommendations to the Board on:

- The recruitment, retention, remuneration arrangements and termination of the Chief Executive Officer and Senior Executives
- The performance measurement arrangements for Directors, the Chief Executive Officer and Senior Executives
- Succession planning for the Chief Executive Officer and Senior Executives
- Insurance and related arrangements for Directors and Officers
- Professional development for Directors, the Chief Executive Officer and Senior Executives
- QR's remuneration practices and industrial instruments to ensure that QR is considering emerging issues
- QR's superannuation arrangements.

The composition of the Committee and attendance at Committee meetings in 2006/07 is set out below.

Freight Business Strategy Committee

The role of the Freight Business Strategy Committee is to:

- Ensure that QR has in place a strategic approach to business development (for both traditional and non-traditional growth opportunities) for the Freight Line of Business, including provision of access by the Network Access Line of Business

- Provide strategic direction to management in respect of any proposed significant change in business direction or new major business opportunities (including the creation of subsidiaries or joint ventures) for the Freight Line of Business.

The composition of the Committee and attendance at Committee meetings is set out below.

Passenger Services Strategy Committee

The role of the Passenger Services Strategy Committee is to:

- Ensure that QR has in place a strategic approach to business development (for both traditional and non-traditional growth opportunities) for the Passenger Services Line of Business, including any provision of access by the Network Access Line of Business
- Provide strategic direction to management in respect of any proposed significant change in business direction or new major business opportunities (including the creation of subsidiaries or joint ventures) for the Passenger Services Line of Business.

The composition of the Committee and attendance at Committee meetings in 2006/07 is set out on the opposite page.

REMUNERATION AND SUCCESSION COMMITTEE

Director's Name	Attended	Maximum No. Possible
Robert Holloway (Chairman)	6	6
John B Prescott AC	6	6
Lisa Hunt	4	6
Dawson Petie	5	6

FREIGHT BUSINESS STRATEGY COMMITTEE

Director's Name	Attended	Maximum No. Possible
John West (Chairman)	9	9
John B Prescott AC	7	9
Cr Warren McLachlan	8	9
Dawson Petie	4	9
Lisa Hunt	8	9

PASSENGER SERVICES STRATEGY COMMITTEE

Director's Name	Attended	Maximum No. Possible
Cr Paul Bell AM (Chairman)	4	5
Robert Holloway	5	5
John B Prescott AC	4	5
Susan Rix	4	5

CHIEF EXECUTIVE OFFICER

The Chief Executive Officer is the primary link between the Board and the corporation, accountable to the Board for the day-to-day affairs, management and performance of the corporation. A formal 'Instrument of Delegation' specifying the powers delegated to the Chief Executive Officer has been approved by the Board and is reviewed on an annual basis.

SHAREHOLDERS

The Board of QR aims to ensure that shareholding Ministers and their representatives are informed and have ready access to key information, issues and developments affecting the organisation. There are a range of formal and informal communication channels to provide an effective flow of information between QR and shareholding Ministers.

Formal communication channels include:

- The Corporate Plan and Statement of Corporate Intent (SCI), which detail QR's key strategies, specific initiatives and performance criteria. The Corporate Plan has a five-year horizon while the SCI is focused on the financial year ahead. A copy of the SCI is tabled annually in the Queensland Parliament and is a public document
- Quarterly Reports to shareholding Ministers detailing QR's financial and operational performance each quarter
- The Annual Report, a publicly available document tabled in the Queensland Parliament each year by the Minister for Transport
- Regular meetings between the Chairman, Chief Executive Officer and shareholding Ministers to ensure they are informed of key decisions and considerations of the Board
- Regular correspondence between shareholding Ministers and the QR Chairman on key issues. In addition, the Chief Executive Officer provides regular written briefings to Queensland Transport and the Office of Government Owned Corporations.

ETHICAL STANDARDS

QR is committed to the highest standards of professionalism, integrity and ethical behaviour. Employees are expected to demonstrate behaviour that is consistent with QR's vision of 'Performance' and our 'Organisational Values'. To this end, QR has recently updated our Code of Conduct, which applies to all QR employees. The Code of Conduct was approved by the Board and applies equally to QR Directors. Directors are also required to comply with the Code of Conduct for Directors contained in the Board's Governance Charter.

TRADING IN SECURITIES

The Board has approved a policy on trading in securities by Directors, Officers and employees.

DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Directors' remuneration packages are set by the Governor in Council.

Details of the nature and amount of each element of emolument of each Director of QR and specified QR Executives are set out in Note 31 on pages 118 to 123 of this report.

QR REMUNERATION

Fixed Pay

Fixed remuneration for the Chief Executive Officer and Senior Executives is reviewed at 1 July each year and adjusted in accordance with advice provided by the shareholding Ministers. In setting the fixed remuneration for the year, regard is given to a range of information, including job size and general market movement in salary rates.

In setting remuneration for other contract officers, regard is given to individual performance, market conditions and positioning, ensuring that QR is competitively placed to retain and attract the skills and capabilities required to achieve QR's business objectives.



QR continues to work with the public on ways to eliminate incidents at the interface between road and rail.

CORPORATE GOVERNANCE

The total fixed remuneration of the Chief Executive Officer, Senior Executives and all other contract employees is inclusive of benefits and fringe benefits tax that are salary sacrificed. The Chief Executive Officer, Senior Executives and other contract officers must contribute from their fixed remuneration to superannuation in accordance with QR Policy.

Performance Pay

The Chief Executive Officer, Senior Executives and other contract officers may receive a performance payment dependent on the achievement of specific performance

outcomes. The achievement of Corporate and Business Group Key Performance Indicators is measured as on-target, above-target or stretch target. The amount that will be funded as a bonus pool will be dependent on the level at which the performance objectives have been achieved.

The funded amount will be distributed to the Chief Executive Officer, Senior Executives and other contract employees based on assessment of how they have performed in relation to the objectives set for them in their performance plans for the year. The measure of individual performance will include how well the person has acted in accordance with QR's Values and Behaviours.

SUMMARY OF STATEMENT OF CORPORATE INTENT

INTRODUCTION

QR's Statement of Corporate Intent (SCI) is prepared each financial year in accordance with the requirements of Part 8 of the *Government Owned Corporations Act 1993 (GOC Act)*.

The SCI is the formal statement of intentions, key policies and the performance agreement between the Board of QR and our shareholding Ministers. It is consistent with QR's five-year Corporate Plan.

QR'S CAPITAL STRUCTURE, DIVIDEND POLICY AND FINANCIAL RISK

The SCI includes details of policies for capital structure, dividend payout and the management of financial risk.

TRANSPORT SERVICE CONTRACTS FUNDING

QR is contracted by Government to provide the following service outputs:

- Citytrain
- Traveltrain, with the exception of Kuranda Scenic Rail
- Some freight services
- Network infrastructure (for agreed rail infrastructure network standards and capacity).

The SCI outlines the funding of the above services, which are purchased by Government through Transport Service Contracts.

EMPLOYMENT AND INDUSTRIAL RELATIONS PLAN

This plan guides QR in developing and maintaining conditions of employment for employees, including labour market-based remuneration. The Employment and Industrial Relations Plan contains information relating to:

- Staff profile (by employment type)
- Workforce management and industrial relations strategies
- Workforce planning and capability development strategies
- Staff performance management
- Recruitment and selection policies and strategies
- Remuneration arrangements
- Superannuation details
- Equity and workforce diversity strategies
- Obligations under employment legislation.

PERFORMANCE MONITORING

The SCI contains a framework for performance monitoring that ensures the QR Board is accountable to our shareholding Ministers for QR's performance. The SCI requires the following reports to be provided to the shareholding Ministers:

- *Quarterly Reports*: Through the year, QR provided quarterly information on the performance indicators outlined in the 2006/07 SCI to our shareholding Ministers. Quarterly profit and loss information was reported on a responsibility basis. Divergence from forecast results was reported on an exception basis
- *Annual Report to Shareholding Ministers*: Through the year, QR provided annual information on the performance indicators outlined in the 2006/07 SCI to our shareholding Ministers.

PERFORMANCE FORECASTS

The SCI requires QR to report on a number of financial and non-financial performance indicators to present a balanced perspective of QR's overall performance. These financial and non-financial performance indicators are also reported in the Quarterly Report to shareholding Ministers.

Examples of financial indicators include:

- Profit after tax
- Value add
- Return on assets
- Operating ratio.

Examples of non-financial indicators include:

- Lost time frequency rate
- On-time running
- Derailments per million train kilometres
- Signals passed at danger per million train kilometres.

MODIFICATIONS TO SCI

Section 131(1)(d) of the *GOC Act 1993* requires that each annual report of a Government Owned Corporation include particulars of any modifications made to the SCI during the relevant financial year. QR's SCI was not modified in 2006/07.

	2002/03 (\$m)	2003/04 (\$m)	2004/05 (\$m)	2005/06 (\$m)	2006/07 (\$m)	% Change	(\$m) Change
	2,226.8*	2,305.1	2,540.7	2,540.9	3,221.0	26.5	674.1
	2,067.2	2,113.0	2,300.0	2,457.1	2,969.0	20.4	501.0
Invest and ta	797.3	809.3	877.2	777.5	1,001.3	28.0	223.0
	450.6	455.9	505.3	363.2	564.3	55.4	201.1
	309.6	191.4	240.0	197.7	267.0	191.9	172.2
	147.0	120.6	173.3	102.2	103.2	122.9	101.0
	139.6	114.6	103.1	60.5	151.5	121.1	81.0
	390.0*	400.2*	514.6	700.6	610.2	-21.6	-170.4
	7,010.3	7,936.4	8,290.9	9,302.2	9,999.0	7.5	686.8
	523.1	600.9	760.7	1,154.4	1,029.6	-6.5	-74.8
	3,663.9	3,703.9	3,815.9	4,502.0	4,566.6	1.4	62.0
	1,917.1	1,917.1	1,931.4	2,017.4	2,305.1	18.2	367.7
	345.3	410.5	663.7	675.0	706.9	4.7	31.9
	5.83%	5.79%	6.22%	4.13%	5.85%	41.6	
	5.63%	4.51%	6.55%	3.09%	6.29%	103.9	
	0.95	0.95	1.11	0.80	0.80	-0.0	
	0.76	0.66	0.67	0.60	0.57	-16.2	
	58.06%	57.79%	59.61%	62.12%	59.71%	-3.9	
	1.6	1.72	1.96	1.33	1.87	40.4	



SECTION 6

OPERATIONAL AND FINANCIAL PERFORMANCE

SUMMARY OF TRAFFIC TASK AND RESOURCE STATISTICS

SUMMARY OF TRAFFIC TASK

	2006/07	2005/06
Track Usage Queensland Network	GTK* (000's)	GTK* (000's)
QR National	79,970,467	76,112,934
QR Passengers	3,360,894	3,339,319
Third Party Operators	4,390,602	4,183,563
Total Track Usage Qld Network	87,721,963	83,635,816

* Gross Tonne Kilometres

	2006/07	2005/06
QR Group Freight ^(a)	Tonnes (000's)	Tonnes (000's)
Bulk Coal ^(b)	177,731	162,090
Freight and Minerals	60,584	21,370
Total Freight	238,315	183,460
	Journeys	Journeys
QR Group Passengers	(000's)	(000's)
Citytrain ^(c)	57,913	53,131
Traveltrain ^(d)	863	969
Total Passenger Journeys	58,776	54,100

^(a) Freight tonnes include ARG's operations since its acquisition by QR in June 2006.^(b) Bulk Coal tonnes: QRNational Coal 175.751 million tonnes and QR Bulk 1.980 million tonnes.^(c) With the introduction of integrated ticketing, Citytrain passenger journeys for 2006/07 have been conservatively calculated using QR's load count estimates on peak patronage.^(d) Reduction in Traveltrain journeys in 2006/07 reflects the limited operation of the Kuranda Scenic Rail from February to June 2007 due to the effect of a landslide.

RESOURCE STATISTICS – QR GROUP

	Length in Kilometres	
RAIL NETWORK OWNED (LEASED) IN USE	30 June 07	30 June 06
Route Kilometres		
1067 mm Gauge		
Owned	9,521	9,505
Less: Lines Suspended from Use	246	246
Lines With No Freight or Passenger Services	1,096	1,034
Sub Total	8,179	8,225
1435 mm Gauge	98	99
Dual Gauge	36	36
Total in Use as at 30 June	8,313	8,360

Line Sections Opened During 2006/07

Millennium balloon loop	5
Byellee Angle	1
Carborough Downs balloon loop	5
Isaac Plains balloon loop	5

Rail Corridor Lease Surrendered During 2006/07

NIL

Adjustments to Line Section Distances

Net decrease in route kilometrage for deviations etc. NIL

AVERAGE NUMBER OF STAFF EMPLOYED	2006/07	2005/06
Operating	13,920	12,731
Capital Works	682	695
Total Average Staff	14,602	13,426

ROLLINGSTOCK IN USE

	30 June 07	30 June 06
Locomotives	673	676
Coal wagons	7,403	6,847
Minerals & freight wagons	6,695	6,789
Passenger rollingstock	686	666
Service stock	780	842

FINANCIAL REVIEW

The QR Group's profit before tax (the difference between total revenue earned and total expenses incurred) increased by 192% to \$262 million in 2006/07. The significant positive turnaround from 2005/06 reflects an increase in revenue of 26.5%, partially offset by a 20.4% increase in expenses.

The QR Group pays an annual dividend to its shareholders, represented by the Deputy Premier, Treasurer and Minister for Infrastructure and the Minister for Transport and Main Roads. A dividend of \$68.5 million was paid during the year, while \$151.5 million has been provided for in this year's accounts to be paid during 2007/08. The increase in the 2006/07 dividend provided for is due to the QR Group's higher profit.

The QR Group's favourable result this year is due to the majority of our businesses exceeding their planned performance through a combination of increased sales, higher tonnages in some markets, and a general focus on managing costs.

CONSOLIDATED FINANCIAL PERFORMANCE (INCOME STATEMENT)

The QR Group's profit before income tax for 2006/07 was \$262 million compared with \$89.8 million for the previous year.

For the first time in the QR Group's history, revenue from operations and other income exceeded \$3 billion, increasing by \$674 million over the 2005/06 result to \$3.2 billion. This increase reflects higher sales by QRNational of coal and Queensland regional freight, partially offset by losses in the intermodal business. Expenses increased by 20.4%, driven by costs associated with new business, partially offset by the reversal of negative prior-year adjustments to asset values to reflect the improvements in some businesses' performance.

CONSOLIDATED FINANCIAL POSITION (BALANCE SHEET)

Total equity of the QR Group increased by 12.2% during the year to \$3.1 billion. Total equity represents our shareholders' investment in the company, and is equivalent to the difference between the QR Group's total assets and total liabilities. Total QR Group borrowings remained

CONSOLIDATED FINANCIAL PERFORMANCE (INCOME STATEMENT)

	2007	2006
For the year ended 30 June	\$ million	\$ million
Revenue	3,221.0	2,546.9
EBITDA	1,001.3	777.5
Depreciation and amortisation	437.0	414.3
EBIT	564.3	363.2
Net Interest	302.3	273.5
Profit before income tax	262.0	89.7
Income tax expense	78.8	7.5
Net profit	183.2	82.2

CONSOLIDATED FINANCIAL POSITION (BALANCE SHEET)

	2007	2006
For the year ended 30 June	\$ million	\$ million
Current assets	618.2	788.6
Non-current assets	9,380.8	8,513.6
Total assets	9,999.0	9,302.2
Current liabilities	1,079.6	1,154.4
Non-current liabilities	5,838.1	5,401.6
Total liabilities	6,917.7	6,556.1
Net assets	3,081.3	2,746.1
Contributed equity	2,385.1	2,017.4
Retained profits	706.9	675.0
Reserves	(10.7)	53.7
Total equity	3,081.3	2,746.1
Gearing ratios		
Debt: equity (%)	148.2%	164.0%
Debt: equity plus debt (%)	59.7%	62.1%
Interest cover (times)	1.9	1.3

relatively stable in 2006/07, increasing by just 1.4% to \$4.6 billion. As a result, the QR Group's gearing (or the ratio of our long-term funds with fixed interest to total equity, measured as debt to debt plus equity) decreased to 59.7%.

CAPITAL INVESTMENT

During 2006/07, the QR Group invested more than \$1.5 billion in Property, Plant and Equipment programs across our operations. The most significant investments were in passenger infrastructure and rollingstock as part of the SEQIP program, and coal rollingstock to meet predicted increases in tonnages.

DEBT AND GEARING

The QR Group borrowed \$62.8 million during the year to support its capital program. Debt was held relatively stable at \$4.6 billion. Our shareholders' equity in the QR Group increased by 12.2%, reflecting an increase in asset values, contributions from shareholders, and the higher profit earned for the year. Interest cover increased as a result of higher profit.

CONSOLIDATED CASH FLOWS

The QR Group generated operating cash flows of \$954.7 million in 2006/07, an increase of 79.6% from 2005/06. The increase was driven by higher operating revenue and transport services revenue from government.

OUTLOOK

Queensland coal tonnages are forecast to grow significantly over the next two to three years. To meet this demand, the QR Group will continue to deliver expanded coal system infrastructure, and additional rollingstock and traincrew resources. While meeting this demand will require significant investment on the QR Group's behalf, we are committed to the sustainable development of the Queensland coal supply chains, and believe that this investment will support our forecast revenue and profit growth.

In 2007/08 and beyond, the QR Group is committed to continuing our national freight logistics growth strategy. We will also remain focused on improving the performance of our intermodal and Queensland regional businesses through reform and business improvement initiatives.

CONSOLIDATED CASH FLOWS

For the year ended 30 June	2007	2006
	\$ million	\$ million
Net cash from operating activities	954.7	531.7
Net cash from investing activities	(1,330.2)	(1,057.0)
Net cash from financing activities	362.1	578.1
Net increase (decrease) in cash held	(13.4)	52.8
Cash and cash equivalents at end of year	48.1	61.4

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CONSOLIDATED INCOME STATEMENT – FOR THE YEAR ENDED 30 JUNE 2007

	Notes	Consolidated		Parent	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Revenue from operations	4	3,130,022	2,479,087	2,702,245	2,388,470
Other income	5	91,006	67,794	66,011	62,561
Consumables		(1,104,471)	(760,631)	(831,083)	(721,626)
Employee benefits expense		(1,069,150)	(975,317)	(941,619)	(932,523)
Depreciation and amortisation expense	6	(437,038)	(414,333)	(400,276)	(404,371)
Other expenses	6	(40,804)	(28,037)	(27,497)	(27,681)
Finance costs		(307,511)	(278,824)	(307,511)	(278,799)
Profit before income tax		262,054	89,739	260,270	86,031
Income tax benefit / (expense)	7	(78,830)	(7,535)	(73,632)	(14,520)
Net profit		183,224	82,204	186,638	71,511

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

CONSOLIDATED BALANCE SHEET – AS AT 30 JUNE 2007

ASSETS	Notes	Consolidated		Parent	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Current assets					
Cash and cash equivalents	8	48,067	61,458	25,109	35,945
Trade and other receivables	9	338,085	463,688	303,109	306,943
Inventories	10	201,150	191,401	183,333	178,302
Derivative financial instruments	11	15,876	37,061	15,876	37,061
Other current assets	12	15,017	34,960	25,197	42,708
Total current assets		618,195	788,568	552,624	600,959
Non-current assets					
Trade and other receivables	13	35,419	38,347	628,460	627,305
Property, plant and equipment	14	8,883,756	7,947,856	8,409,600	7,459,925
Deferred tax assets	16	259,534	329,569	252,026	322,282
Intangible assets	17	112,002	110,866	38,403	26,057
Inventories	18	36,107	33,713	36,107	33,713
Derivative financial instruments	11	12,231	25,823	12,231	25,823
Other non-current assets	19	41,725	27,462	56,741	42,988
Total non-current assets		9,380,774	8,513,636	9,433,568	8,538,093
Total assets		9,998,969	9,302,204	9,986,192	9,139,052
LIABILITIES					
Current liabilities					
Trade and other payables	20	529,158	620,769	497,053	409,004
Interest bearing liabilities	21	321,785	418,924	321,784	418,923
Provisions	22	15,764	15,079	14,372	13,454
Derivative financial instruments	11	25,635	4,509	25,635	4,509
Other current liabilities	23	187,237	95,136	174,656	132,769
Total current liabilities		1,079,579	1,154,417	1,033,500	978,659
Non-current liabilities					
Interest bearing liabilities	24	4,243,770	4,083,836	4,243,768	4,083,833
Derivative financial instruments	11	24,377	2,058	24,377	2,058
Deferred tax liabilities	25	920,510	911,828	912,366	906,175
Provisions	26	39,889	31,787	39,901	31,598
Other non-current liabilities	27	609,564	372,136	690,652	433,510
Total non-current liabilities		5,838,110	5,401,645	5,911,064	5,457,174
Total liabilities		6,917,689	6,556,062	6,944,564	6,435,833
Net assets		3,081,280	2,746,142	3,041,628	2,703,219
EQUITY					
Contributed equity	29	2,385,080	2,017,360	2,385,080	2,017,360
Reserves	11(b), 30(a)	(10,719)	53,737	(10,719)	53,737
Retained profits	30(b)	706,919	675,045	667,267	632,122
Total equity		3,081,280	2,746,142	3,041,628	2,703,219

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

STATEMENT OF CHANGES IN EQUITY – FOR THE YEAR ENDED 30 JUNE 2007

	Notes	Consolidated		Parent	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Total equity at the beginning of the financial year		2,746,142	2,585,066	2,703,219	2,548,683
Profit for the year		183,224	82,204	186,638	71,511
Contributions of equity	29	367,720	86,000	367,720	86,000
Reserves	30(a)	(64,456)	53,737	(64,456)	53,737
Dividends provided for or paid	20	(151,493)	(68,530)	(151,493)	(68,530)
Adjustment to retained earnings	30(b)	143	7,660	–	11,817
Debt forgiveness	30(b)	–	5	–	–
Total equity at the end of the financial year		3,081,280	2,746,142	3,041,628	2,703,219

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

CONSOLIDATED CASH FLOW STATEMENT – FOR THE YEAR ENDED 30 JUNE 2007

	Notes	Consolidated		Parent	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Cash flows from operating activities					
Receipts from customers		2,597,785	1,960,572	2,128,459	1,750,352
Receipts from Government for transport services		1,018,617	878,797	1,018,617	878,797
Shareholder agreements		48,131	85,907	48,131	85,906
Developer contributions		2,400	–	2,400	–
Receipts from Government for transport concessions		20,632	20,561	20,632	20,561
Interest received		2,508	2,638	1,841	2,740
Payments to suppliers and employees		(2,294,993)	(1,944,316)	(1,852,377)	(1,822,201)
Interest and other cost of finance paid		(330,556)	(279,451)	(330,556)	(279,427)
Net GST received / (paid)		(96,391)	(168,611)	(97,947)	(112,246)
Income tax paid		(13,386)	(24,433)	(13,386)	(24,433)
Net cash (outflow) inflow from operating activities	39	954,747	531,664	925,814	500,049
Cash flows from investing activities					
Investment to acquire businesses		(25,408)	(458,420)	(25,408)	(456,394)
Proceeds from the disposal of assets		36,632	39,441	36,876	39,370
Payments made to acquire assets		(1,341,419)	(637,994)	(1,310,175)	(635,045)
Net cash (outflow) inflow from investing activities		(1,330,195)	(1,056,973)	(1,298,707)	(1,052,069)
Cash flows from financing activities					
General borrowings		847,702	884,321	847,702	884,321
Proceeds from issue of shares		367,720	86,000	367,720	86,000
Repayment of borrowings		(784,840)	(199,150)	(784,840)	(199,154)
Dividends paid		(68,530)	(193,100)	(68,530)	(193,100)
Net cash (outflow) inflow from financing activities		362,052	578,071	362,052	578,067
Net increase (decrease) in cash and cash equivalents		(13,396)	52,762	(10,841)	26,047
Cash and cash equivalents at the beginning of the financial year		61,446	8,684	35,933	9,886
Cash and cash equivalents at end of year	8	48,050	61,446	25,092	35,933

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

NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for QR as an individual entity and the consolidated entity consisting of QR and its subsidiaries together referred to as the 'QR 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, Urgent Issues Group Interpretations, the *Financial Administration and Audit Act 1977*, the *Financial Management Standard 1997* and other prescribed requirements.

Compliance with AIFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of the QR Group comply with International Financial Reporting Standards (IFRS).

Historical cost convention

These financial statements have been prepared under the historical cost convention, with the exception of the revaluation of financial instruments.

(B) PRINCIPLES OF CONSOLIDATION

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of QR as at 30 June 2007 and the results of all subsidiaries for the year then ended. Subsidiaries are all those entities (including special purpose entities) over which the QR 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. Refer to Note 36 for detailed list of individual entities within the QR Group structure.

Subsidiaries are fully consolidated from the date on which control is transferred to the QR Group.

Intercompany transactions, balances and unrealised gains on transactions between the QR Group of companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the QR Group. Investments in subsidiaries are accounted for at cost in the consolidated financial statements.

(ii) Joint ventures

Joint venture assets

The proportionate interests in the assets, liabilities, revenues and expenses of a joint venture activity have been incorporated in the financial statements under the appropriate headings. Details of the joint venture are set out in Note 37.

Joint venture entities

The interest in a jointly controlled entity is accounted for in the consolidated financial statements using the equity method and is carried at cost by the parent entity. Under the equity method, the share of the profits or losses of the jointly controlled entity is recognised in the income statement. Details relating to the jointly controlled entities are set out in Note 37.

Joint venture operations

The proportionate interests in the assets, liabilities, revenues and expenses of a joint venture activity have been incorporated in the financial statements under the appropriate headings. Details of the joint venture are set out in Note 37.

(C) SEGMENT REPORTING

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments (refer to Note 3).

(D) FOREIGN CURRENCY AND COMMODITY TRANSACTIONS

Where the QR Group is exposed to the risk of fluctuations in foreign currency exchange rates and commodity prices, it enters into financial arrangements to reduce this exposure. While the value of these financial instruments is subject to the 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 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.

(E) DERIVATIVES

The QR Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. The QR Group comparative information on financial instruments is presented in accordance with these standards.

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.

At inception, the QR 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 QR 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 changes in fair value or cash flows of hedged items.

(i) Cash flow hedge

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. 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.

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 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) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the income statement within other income or other expense, together with the gain or loss relating to the ineffective portion and changes in the fair value of the hedged fixed rate borrowings attributable to the interest rate risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedge item for which the effective interest method is used is amortised to profit or loss over the period to maturity using a recalculated effective interest rate.

(iii) 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.

(iv) Embedded derivatives

Through the QR 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 (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.

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

(F) FAIR VALUE ESTIMATION

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

The fair value of financial instruments traded in active markets (such as foreign exchange and commodity derivatives) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets and liabilities held by the QR Group for effective hedges is the average (mid) forward rate at close of business on balance sheet date.

(G) REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of taxes. The QR 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 the provision of services and products to external parties. It includes Transport Service Contract payments received from Queensland Transport for below rail, Citytrain, Traveltrain and low volume freight services, and amounts received from various State Government departments as direct reimbursement for concessions provided to senior citizens, pensioners and students.

Revenue from the rendering of a service, including construction works, is recognised by reference to the stage of completion of the transaction, provided that the

NOTES TO THE FINANCIAL STATEMENTS – 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

transaction's outcome, stage of completion, and the past and prospective costs are all reliably measurable. Otherwise such revenue is only recognised to the extent of the associated recognised recoverable expenses.

(ii) Asset sales

Upon the sale of a fixed asset, the difference between the carrying amount and the sale proceeds is brought to account in the income statement whether it is a net gain/(loss) (refer to Note 6).

(H) INCOME TAX

The income tax expense or revenue for the period is the tax payable on the current period's taxable income. Tax payable is based on the notional 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 to 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 and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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 balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax Consolidation Legislation

QR and its wholly owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, QR, and the controlled entities in the tax consolidated group have adopted a group allocation approach effective 1 July 2006 and account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, QR also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the QR tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in

the group. Details about the tax funding agreement are disclosed in Note 7.

(I) LEASES**Leases on property, plant and equipment, rollingstock and infrastructure**

Leases on property, plant and equipment, rollingstock and infrastructure where the QR Group, as lessee, has substantially all the risks and rewards incidental to 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 corresponding rental obligations, net of finance charges, are included in other short term and long term payables.

Expected rental revenue from operating leases are disclosed in Note 14(b).

Where a sale and lease back transaction has occurred, the lease is classified as a finance lease.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the QR Group as lessee are classified as operating leases (Note 33(b)). Operating leases are expensed on a straight line basis over the lease term and are charged to the income statement.

Cross border leases

Cross border leases are accounted for on a basis that reflects the substance of the transactions, being to record a leased asset and to only recognise in the accounts the resulting changes in cash flows.

Where it is necessary under the cross border lease provisions to substitute existing owned assets for damaged or disposed leased assets, or to terminate part or all of a lease, and there is a difference between the value of the owned asset and the acquisition or termination cost of the leased asset, this amount is netted off in the income statement to ensure the leased asset is recorded at fair value.

(J) ROUNDING OF AMOUNTS AND COMPARATIVES

Unless otherwise indicated, all amounts have been rounded to the nearest \$1,000. Comparative information has been restated where necessary to be consistent with disclosures in the current reporting period.

(K) CLASSIFICATION OF EXPENDITURE

Expenditure in excess of \$2,000 which is expected to provide future economic benefits is capitalised, with the exception of the purchase of office and computer equipment and other items of a similar nature that provide limited quantifiable benefits. The threshold applies to all asset classes. Capital spares have a threshold of \$20,000. If capital spares are under \$20,000, the item is recorded in inventory. All other expenditure, except reductions in equity, is treated as an operating expense in the period in which the expenditure is incurred.

(L) CASH AND CASH EQUIVALENT

For cash flow statement presentation purposes, cash and cash equivalent includes cash on hand, cash at bank and short term money market deposits with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

The QR Group has a group banking facility whereby no interest is earned on subsidiary bank balances. Interest is earned on a daily basis on the consolidated bank balance of the QR Group which comprises the parent entity, Interail Australia Pty Ltd, National Logistics Alliance Pty Ltd (parent entity) and companies within the QRNational Holdings group.

(M) TRADE AND OTHER RECEIVABLES**(i) Trade receivables**

Trade receivables are recorded at fair value less provision for impairment. Generally, the credit terms for trade receivables range from 7 to 31 days; however, there are a small number of customers with 60 to 62 day terms due to contractual obligations.

Collectibility 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 QR Group will not be able to collect all amounts due according to the original terms of the receivables.

(ii) Other receivables

Other receivables include related party, contractual and GST receivables. Collectibility is reviewed on an ongoing basis. As at 30 June 2007 it has been assessed that all Other Receivables were collectible.

(N) INVENTORIES

The value of inventories reported includes items held in centralised stores, workshops, and in infrastructure and rollingstock depots.

Inventories are valued at the lower of net realisable value and cost, which 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.

(O) ACQUISITION OF ASSETS

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. 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 or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Australian Accounting Standards.

The capitalisation threshold is \$2,000. This threshold applies to all asset classes. Certain items are excluded from this capitalisation as described in Note 1(k). Costs subsequent to initial acquisition are capitalised when it is probable additional future economic benefits will flow in future years. All other repairs and maintenance has been expensed in the income statement.

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

(P) PROPERTY, PLANT AND EQUIPMENT, ROLLINGSTOCK AND INFRASTRUCTURE**Voluntary change in accounting policy***(i) The nature of the change*

Subsequent to the initial recognition, assets have in the past been measured at cost or fair value. 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 or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Australian Accounting Standards. Fair value is the amount the asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Effective from 1 July 2006, all assets are recorded using cost values. The change to the cost method of recording asset values has been made retrospectively from 1 July 2004. It has been impractical to revert to the original historical cost values of assets because of asset revaluations, transfers, amalgamations and reunitions resulting in QR being unable to determine period specific effects and the cumulative effect of the change to values prior to 1 July 2004. On transition to AIFRS at 1 July 2004, QR elected under the transitional provisions to apply 'deemed cost' to measure its non-current assets. The deemed costs of assets as at 1 July 2004 have now become the cost values of the assets, as this is the earliest period for which retrospective application is practicable. Refer Note 14 (a).

NOTES TO THE FINANCIAL STATEMENTS – 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(ii) The reason for change

QR has adopted the use of cost values as it provides reliable and more relevant information. The asset values are as reliable under the cost model as they were under the fair value disclosures and are more relevant for the following reasons:

- Comparability—the move to the cost model enables better comparison of QR's credit worthiness and financial performance with like companies.
- Profitability and performance stability—the move to cost model ensures QR's reported profitability and return on capital more accurately reflects underlying business performance, mainly as a result of more reliable depreciation expense and actual capital employed. Return on capital under the fair value (revaluation) model provides users with a distorted result based on understated reported earnings through higher annual depreciation charges and overstated asset values, even though no additional capital has been invested.
- Credit worthiness—EBIT interest coverage ratios and capital structure (key credit statistics) under the cost model more accurately reflects business performance, as opposed to being distorted by asset revaluations and associated depreciation.
- Valuation—the cost model provides users of QR's financial statements with a better understanding of the underlying non-current asset values.

(iii) Financial impact – 2007

The financial impact of the change in accounting policy is as follows:

Financial Impact – Income Statement	Cost \$'000	Fair Value \$'000	Change \$'000
Depreciation			
Buildings	15,891	19,942	(4,051)
Plant and Equipment	44,000	44,073	(73)
Rollingstock	175,656	187,215	(11,559)
Infrastructure	157,615	159,854	(2,239)
Total Depreciation	393,162	411,084	(17,922)
Gain / (loss) on Disposal of Assets	(4,783)	(9,010)	4,227
Income Tax Expense	–	–	–
Financial Impact – Balance Sheet	Cost \$'000	Fair Value \$'000	Change \$'000
Opening Net Book Value	7,459,925	7,695,558	(235,633)
Revaluation	–	–	–
Acquisition of subsidiary	–	–	–
Additions	1,453,203	1,453,203	–
Transfers	–	–	–
Disposals	(143,511)	(147,738)	4,227
Impairment Reversal	33,145	33,145	–
Devaluation Expense	–	–	–
Depreciation/Amortisation Expense	(393,162)	(411,084)	17,922
Closing Net Book Value	8,409,600	8,623,084	(213,484)
Deferred Tax Asset / (Liability)	2,522,880	2,586,925	(64,045)

Revaluation

For Whole of Government reporting to ensure the recorded value of property, plant and equipment accurately reflects the fair value of assets as at 30 June 2007, QR performed a review of the indexation movements in relation to all asset classes since the last revaluation. The review of indexation movements has highlighted that the movements in indexes for all asset classes, except for land, are immaterial and therefore the recorded value accurately reflects the fair value of assets as at 30 June 2007.

Land asset values at \$272 million represent 3.2% of QR's total asset base of \$8,623 million as at 30 June 2007. Australia Pacific Valuers Pty Ltd were engaged to perform a review of index movements by regional area of all land assets owned by QR. The review indicates a material movement in land values of some 24% since the last revaluation. The net impact of the movement in value is approximately \$66 million. This adjustment has not been reflected in the above disclosure note as the individual land assets will be further appraised in 2007/08.

(iv) Financial impact – 2006

The financial impact of the change in accounting policy is as follows:

Financial Impact – Income Statement	Cost \$'000	Fair Value \$'000	Change \$'000
Depreciation			
Buildings	21,337	21,337	–
Plant and Equipment	41,265	41,265	–
Rollingstock	181,093	181,093	–
Infrastructure	154,760	154,760	–
Total Depreciation	398,455	398,455	–
Gain / (loss) on Disposal of Assets	6,883	6,883	–
Income Tax Expense	–	–	–
Financial Impact – Balance Sheet	Cost \$'000	Fair Value \$'000	Change \$'000
Opening Net Book Value	7,204,914	7,204,914	–
Revaluation	–	242,867	(242,867)
Acquisition of subsidiary	–	–	–
Additions	719,352	719,352	–
Transfers	–	–	–
Disposals	(54,270)	(54,270)	–
Impairment Expense	(11,616)	(11,616)	–
Devaluation Expense	–	(7,234)	7,234
Depreciation/Amortisation Expense	(398,455)	(398,455)	–
Closing Net Book Value	7,459,925	7,695,558	(235,633)
Deferred Tax Asset / (Liability)	2,237,978	2,308,667	(70,690)

Depreciation calculated under cost and fair value are the same as it is based on 'deemed cost' figures which in 2005/06 approximated to fair value.

Methodology for valuation of fixed assets

Subsequent to initial recognition, assets are measured at cost as described in Note 1(o).

Fair value amounts of assets are disclosed for comparative purposes only for the year of conversion. QR previously valued land, buildings, rollingstock, infrastructure and heritage and cultural assets at fair value. Plant and equipment were valued at cost. Where an asset was measured at fair value, the fair value was equal to the amount that the asset could be exchanged between willing parties in an arm's length transaction. In the absence of any market value, an asset was valued at the lower of its depreciated current replacement or reproduction cost and the net present value of the cash flow expected from the use of the asset.

Heritage and cultural assets are considered to be of an immaterial value and are included in the asset class in which they functionally operate.

Land

The *Transport Infrastructure Act 1994* stipulates that the QR 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 Natural Resources and Water on behalf of the State. This land is leased to Queensland Transport and subsequently sub-leased to the QR 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.

Depreciation and Amortisation

Buildings, plant and equipment, rollingstock and infrastructure (excluding land, assets under construction and motor vehicles) are depreciated on a straight line basis over the useful life net of residual value. Motor vehicles are depreciated using the diminishing value basis (percentages range from 13.64% to 35.0%), with land and assets under construction not depreciated.

Assets controlled by the QR Group under finance leases are amortised over the useful lives of the asset or the lease term, as appropriate.

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.

NOTES TO THE FINANCIAL STATEMENTS – 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 up to a maximum of the host's useful life. 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:

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

The depreciation and amortisation rates and residual values are reviewed annually and adjusted if appropriate (at 1 July of the financial year).

(Q) IMPAIRMENT OF ASSETS

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable (refer to Note 15 for detailed disclosure).

An impairment loss is recognised as 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 level for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash generating units).

Non financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(R) INTANGIBLE ASSETS**(i) Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the QR Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash generating units represents the QR Group's primary reporting segments (Notes 3 and 15).

(ii) Trademarks and Licences

The QR Group does not amortise licences and trademarks, but applies an annual impairment test to each.

(iii) IT Development and Software

Software has a finite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight line method over their estimated useful life which varies from 3 to 7 years. Computer software (mainly comprising the SAP implementation) is amortised over its useful life and carried at cost less its accumulated amortisation.

(iv) Patents, Brand Name and Key Customer Contracts

The patents and brand name have an indefinite useful life and are carried at cost less impairment losses. The nature of the brand and the commitment to sufficient ongoing marketing expenditure supports the assessment of an indefinite useful life. The brand name is valued by considering the cost to the business if the brand was not internally owned, but licensed from a third party.

The key customer contracts have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. The useful lives of customer contracts are 8 to 10 years.

(S) TRADE AND OTHER PAYABLES

These amounts represent liabilities for goods and services provided to the QR 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.

(T) GOODS AND SERVICES TAX (GST)

Revenues, expenses and assets are recognised net of the amount of GST, unless the GST incurred is not recoverable from the Australian Tax Office (ATO). In these cases, GST is recognised as part of the cost of acquisition of an asset or as part of an expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable.

The net amount of GST recoverable from or payable to the ATO is included as a current asset or liability in the Consolidated Balance Sheet.

QR and its subsidiaries now form part of the same GST group. This means that any intercompany transactions within the QR Group do not attract GST.

(U) BORROWINGS

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.

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.

During 2006/2007, the decision was taken to capitalise interest costs directly attributable to the construction of any material qualifying assets in accordance with AASB 123. This decision was taken to ensure all costs directly attributable to the applicable construction project were captured against that project and that the final cost of the construction project was comprehensive and, thus, more accurate. Qualifying assets are assets which take more than a period of 12 months to prepare the asset for its intended use or sale. The rate used to determine the amount of borrowing costs to be capitalised is the QTC interest rate applicable to the entity's outstanding borrowings during the year, in this case 6.89% (2006 7.25%). During 2006/2007, interest costs of \$16.9 million were capitalised with a further \$5.7 million adjustment for prior year expenditure (impact on income tax expense \$6.8 million), there was a corresponding increase in the construction cost of the applicable rollingstock and infrastructure projects. Other immaterial borrowing costs are recognised as an expense in the period in which they are incurred.

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

(V) PROVISIONS

Provisions are recognised when the QR 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.

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.

(W) 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 expected to be settled within 12 months of the reporting date are recognised as current liabilities. The remaining liabilities are included within employee benefits and recognised as non-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. The non-current liabilities are measured at the present value of the expected future payments to be made in respect of services provided by employees up to the reporting date. 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 estimate future cash outflows.

(ii) Long service leave

Liabilities for long service leave expected to be settled within 12 months of the reporting date are recognised as current liabilities. The remaining liabilities are included within employee benefits and recognised as non-current liabilities. The liability for long service leave is measured at the present value of 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) Sick leave

The liability for sick leave is not recognised in the employee benefit liabilities as it is non-vesting and, on average, no more than the annual entitlement is taken each year.

(iv) Superannuation

The QR parent entity 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 QR parent entity also makes superannuation guarantee payments into the QSuper Accumulation Fund (RailSuper) and QSuper Accumulation Fund (Contributory) administered by the Government Superannuation Office. Contributions are expensed as they are made.

NOTES TO THE FINANCIAL STATEMENTS – 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(v) 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 a member of an accumulation super fund; and
- were employed prior to 1st February 1995.

Liabilities for retirement allowance expected to be settled within 12 months of the reporting date are recognised as current liabilities. The remaining liabilities are included within employee benefits and recognised as non-current liabilities.

The non-current liability for retirement allowance is measured as the present value of expected future payments to be made in respect of services provided by qualifying employees. Expected future payments are discounted using market yields at the reporting date on Commonwealth government bonds with maturity 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.

(x) BUSINESS COMBINATIONS

The purchase method of accounting is used to account for business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the QR Group's share of the identifiable net assets acquired is recorded as goodwill (refer to Note 1(r)). If the cost of acquisition is less than the QR Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

(y) INSURANCE

QR insures against risks that 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 risks. Other areas of risk exposure are self insured, including workers' compensation.

Self insurance and other underwriting activities are performed by the parent entity's wholly owned subsidiary, On Track Insurance Pty Ltd (OTI).

(z) ENVIRONMENTAL COSTS

The QR Group is required to comply with relevant environmental legislation. Exposure in this area is primarily related to noise pollution and contaminated land. Due to their nature, it is not possible to provide an estimate of the future expenditure in these areas.

(aa) AUTHORISATION FOR ISSUE

The consolidated financial statements are authorised for issue by the Chairman at the date of signing the management certificate.

(ab) IMPACT OF JUDGEMENT AND ESTIMATES

The preparation of the QR Group's financial statements requires management to make judgements and estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the period. 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. The QR Group makes estimates and assumptions concerning the future. Actual results may differ from these estimates.

(ac) DIVIDENDS

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

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

(AD) DISCLOSURE OF NEW ACCOUNTING STANDARDS

As required by AASB 108.30, disclosure of the new Accounting Standards already issued, but not yet effective and applied, are summarised as follows:

Titel	Operative for reporting periods beginning on/after:
AASB 1: <i>First time Adoption of Australian equivalents to International Financial Reporting Standards</i>	1 January 2008
AASB 2: <i>Share-based Payment</i>	1 March 2007
AASB 4: <i>Insurance Contracts</i>	1 January 2007
AASB 8: <i>Operating Segments</i>	1 January 2009
AASB 101: <i>Presentation of Financial Statements</i>	1 January 2007
AASB 114: <i>Segment Reporting</i>	1 January 2007
AASB 117: <i>Leases</i>	28 February 2007
AASB 118: <i>Revenue</i>	28 February 2007
AASB 120: <i>Accounting for Government Grants and Disclosure of Government Assistance</i>	28 February 2007
AASB 121: <i>The Effects of Changes in Foreign Exchange Rates</i>	28 February 2007
AASB 127: <i>Consolidated and Separate Financial Statements</i>	28 February 2007
AASB 131: <i>Interests in Joint Ventures</i>	28 February 2007
AASB 132: <i>Financial Instruments: Disclosure and Presentation</i>	1 January 2007
AASB 133: <i>Earnings per Share</i>	1 January 2007
AASB 139: <i>Financial Instruments: Recognition and Measurement</i>	28 February 2007
AASB 1023: <i>General Insurance Contracts</i>	1 January 2007
AASB 1038: <i>Life Insurance Contracts</i>	1 January 2007
AASB 1048: <i>Interpretation and Application of Standards</i>	31 March 2007
AASB 1049: <i>Financial Reporting of General Government Sectors by Governments</i>	1 July 2008
AASB 2007-1: <i>Amendments to Australian Accounting Standards arising from AASB Interpretation 11 [AASB 2]</i>	1 March 2007
AASB 2007-2: <i>Amendments to Australian Accounting Standards arising from AASB Interpretation 12 [AASB 1, AASB 117, AASB 118, AASB 120, AASB 121, AASB 127, AASB 131 & AASB 139]</i>	1 January 2008
AASB 2007-3: <i>Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038]</i>	1 January 2009
Interpretation 4: <i>Determining whether an Arrangement contains a Lease [revised]</i>	1 January 2008
Interpretation 10: <i>Interim Financial Reporting and Impairment</i>	1 November 2008
Interpretation 11: <i>AASB 2 – Group and Treasury Share Transactions</i>	1 March 2007
Interpretation 12: <i>Service Concession Arrangements</i>	1 January 2008
Interpretation 129: <i>Disclosure – Service Concession Arrangements [revised]</i>	1 January 2008

The impact of changes to the above standards and interpretations have not been considered. It is anticipated that the changes to the above Standards and Interpretations are either not applicable to the QR Group or adoption of them in future periods will have no material financial impact on the QR Group's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

2 FINANCIAL RISK MANAGEMENT

The QR Group's activities expose it to a variety of financial risks: market risk (including currency risk and price risk), credit risk and liquidity risk. The QR Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the QR Group. The QR Group uses derivative financial instruments such as foreign exchange contracts and commodity swap contracts to hedge certain risk exposures. Trading for profit is strictly prohibited.

Risk management is carried out by a central treasury department within QR (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the QR Group's operating units. The Board provides 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.

(A) MARKET RISK**Foreign exchange risk**

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. Forward contracts, transacted by Group Treasury, are used to manage foreign exchange risk.

Commodity price risk

Commodity price risk arises when future commercial supply agreements are subject to fluctuations in price movements. Commodity swap contracts, transacted by Group Treasury, are used to manage commodity price risk.

Interest rate risk

The QR Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the QR Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the QR Group to fair value interest rate risk. The Queensland Treasury Corporation (QTC) has been authorised to manage the interest rate risk of QR within limits in accordance with the risk profile approved by the QR Board of Directors.

(B) CREDIT RISK

The QR Group has policies 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. The QR Group has policies that limit the amount of credit exposure to any one financial institution.

(C) LIQUIDITY RISK

Liquidity risk management within the QR Group ensures sufficient cash to meet short term and long term financial commitments. The QR 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.

3 SEGMENT INFORMATION

(A) DESCRIPTION OF SEGMENTS

Segment assets, revenues, expenses and liabilities include inter-segment transfers. Such transfers are recorded at cost and are eliminated on consolidation.

Segment results, assets and liabilities include items directly attributable to a segment as well as the relevant portion that can be allocated to a segment on a reasonable basis. Unallocated items mainly comprise corporate wide assets, liabilities and expenses. The total \$6.3 billion of unallocated liabilities consists of \$4.5 billion related to corporate interest bearing liabilities, with the remaining \$1.7 billion of operational liabilities not able to be allocated as systems were not in place to enable further allocation.

Business segments

The QR Group comprises the following business segments:

Freight – Providing freight and logistics services to a number of industries, including mining, minerals, electricity, livestock, sugar, grain and other primary produce industries.

Passengers – Providing passenger rail travel and services to South East Queensland commuters, tourists and long-distance rail travellers.

Access – Providing railway access, infrastructure services and train operations management.

Other operations/OTI – Providing rollingstock and components services, general shared services and insurance.

Geographical segments

The QR Group operates predominately in one geographical segment being Australia.

(B) PRIMARY REPORTING FORMAT – BUSINESS SEGMENTS

	Freight	Passengers	Access	Other operations/ OTI	Inter-segment eliminations	QR Consolidated
2007	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
External segment revenue	2,368,338	674,721	74,741	6,930	–	3,124,730
Inter-segment revenue	45,563	–	620,425	30,636	(696,624)	–
Total segment revenue	2,413,901	674,721	695,166	37,566	(696,624)	3,124,730
Segment result	71,356	91,771	380,263	2,678	8,991	555,059
Unallocated expenses						(293,005)
Profit before income tax						262,054
Income tax expense						(78,830)
Net profit						183,224
Segment assets	3,068,114	1,204,200	4,147,375	2,007,475	(756,690)	9,670,474
Unallocated assets						328,493
Total assets						9,998,967
Segment liabilities	737,779	58,097	422,875	135,339	(763,543)	590,547
Unallocated liabilities						6,327,140
Total liabilities						6,917,687
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	316,331	185,028	221,724	808,006	–	1,531,089
Depreciation and amortisation expense	152,163	84,101	159,025	41,749	–	437,038
Other non-cash expenses	26,369	(2,679)	(2,322)	(20,275)	–	1,093
Impairment Expenses / (Reversal)	(26,841)	2,640	963	2,466	–	(20,772)

	Freight	Passengers	Access	Other operations/ OTI	Inter-segment eliminations	QR Consolidated
2006	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
External segment revenue	1,479,290	601,252	416,918	(23,655)	–	2,473,805
Inter-segment revenue	31,368	–	563,269	36,383	(631,020)	–
Total segment revenue	1,510,658	601,252	980,187	12,728	(631,020)	2,473,805
Segment result	49,120	43,885	274,278	7,710	(6,548)	368,445
Unallocated expenses						(278,706)
Profit before income tax						89,739
Income tax expense						(7,535)
Net profit						82,204
Segment assets	2,994,940	1,198,286	4,125,769	1,340,627	(746,890)	8,912,732
Unallocated assets						389,476
Total assets						9,302,208
Segment liabilities	929,115	39,661	181,842	144,556	(761,559)	533,615
Unallocated liabilities						6,022,448
Total liabilities						6,556,063
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	207,066	21,386	356,853	136,883	–	722,188
Depreciation and amortisation expense	125,217	92,754	153,083	43,279	–	414,333
Other non-cash expenses	12,412	1,789	5,011	15,094	–	34,306
Impairment expense	11,099	516	–	–	–	11,615

NOTES TO THE FINANCIAL STATEMENTS

4 REVENUE FROM OPERATIONS

	Consolidated		Parent	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Services revenue	2,965,205	2,321,303	2,530,165	2,220,376
Other revenue	125,484	111,249	133,421	121,749
Construction and other works revenue	25,795	32,722	25,829	32,722
Rents and sub-lease rentals	8,246	8,531	8,228	8,266
Interest revenue	5,292	5,282	4,602	5,357
	3,130,022	2,479,087	2,702,245	2,388,470

Services revenue includes Transport Service Contracts of \$928.6 million (2006: \$783.5 million)

Other revenue includes Shareholder Agreement revenue of \$35.1 million (2006: \$44.6 million)

5 OTHER INCOME

	Consolidated		Parent	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Net gain / (loss) on foreign exchange	972	1,534	972	1,534
Government grants [A]	90,034	66,260	65,039	61,027
	91,006	67,794	66,011	62,561

(A) GOVERNMENT GRANTS AND ASSISTANCE

	Consolidated		Parent	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Training revenue	532	1,547	535	1,528
Diesel fuel rebate	89,502	64,713	64,504	59,499
	90,034	66,260	65,039	61,027

There are no unfulfilled conditions or other contingencies attaching to these grants. The QR Group did not benefit directly from any other forms of government assistance.

6 EXPENSES

Profit before income tax includes the following specific expenses:	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<i>Depreciation</i>				
Buildings	16,966	21,223	15,401	20,768
Plant and equipment	48,848	49,390	44,000	41,265
Rollingstock	101,047	67,553	75,065	67,553
Infrastructure	160,270	154,833	157,609	154,755
Total Depreciation	327,131	292,999	292,075	284,341
<i>Amortisation</i>				
Buildings under finance leases	491	567	491	569
Rollingstock under finance leases	100,592	113,614	100,591	113,540
Infrastructure under finance leases	116	276	5	5
Total Amortisation	101,199	114,457	101,087	114,114
Total Property, Plant and Equipment Depreciation & Amortisation (refer Note 14)	428,330	407,456	393,162	398,455
<i>Other Amortisation</i>				
Software	7,498	6,272	7,114	5,916
Customer Contracts	1,210	605	–	–
Total amortisation (refer Note 17)	8,708	6,877	7,114	5,916
Total Depreciation and Amortisation	437,038	414,333	400,276	404,371
Net (gain) / loss on sale of fixed assets	5,026	(6,489)	4,783	(6,883)
Net (gain) / loss on commodity and foreign currency derivatives	3,352	(23,012)	3,352	(23,012)
Bad and impaired trade receivables	770	195	811	221
Rental expense relating to operating leases	2,551	1,777	1,572	1,676
Defined benefit superannuation expense	39,477	38,390	39,477	38,390
Impairment expense / (reversal) of fixed assets ^(a)	(20,772)	11,615	(33,145)	11,615
Auditor's remuneration – audit services	1,553	607	974	536
Provision for Inventory Obsolescence	4,968	2,106	4,960	2,094
Other	3,879	2,848	4,713	3,044
	40,804	28,037	27,497	27,681

^(a)The figure shown for impairment expense/(reversal) is the net of total impairment expense and total impairment reversal as disclosed in Note 15.

The audit fees for 2006/07 includes 2005/06 audit fees of \$463,000 relating to QR and \$76,000 relating to subsidiaries paid in 2006/07. Audit fees of \$110,000 relating to 2006/07 will be paid during 2007/08.

NOTES TO THE FINANCIAL STATEMENTS

7 INCOME TAX EXPENSE

Voluntary change in accounting policy*(i) The nature of the change*

The QR tax consolidated group adopted a 'group allocation approach' methodology for allocation of current and deferred taxes to group members effective 1 July 2006. This replaced the previous 'separate taxpayer within the group' method utilised in the 2005/06 financial year. The 'group allocation approach' is in accordance with AASB 112 *Income Taxes* and UIG 1052 and produces the following outcomes:

- Each entity is notionally liable for its own transactions and intercompany eliminations are recognised at the consolidated level;
- Intra-group asset transfers are ignored; and
- Current tax is measured in each entity.

(ii) The reason for change

QR adopted the 'separate taxpayer within the group' methodology for the 2005/06 financial year which eliminated intercompany transactions at entity level. This had significant impact on group member profits/losses and non-current receivables/payables that would cause QR intercompany tax loans to increase significantly in future years. The elimination of intercompany transactions at entity level also did not produce a taxable profit/loss that accurately disclosed the activities of each entity on a stand alone basis.

(iii) Financial Impact – 2007

The financial impact of the change in accounting policy only applies to the 2006/07 year and is as follows:

Financial Impact	Separate taxpayer within group \$'000	Group allocation approach \$'000	Change \$'000
Income tax expense	84,668	73,632	(11,036)
Deferred Tax Asset	252,026	252,026	–
Deferred Tax Liability	912,366	912,366	–
QR Intercompany Tax Loans	(7,930)	3,106	11,036

There is no financial impact of this change in accounting policy at the QR Consolidated level.

	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
(A) INCOME TAX EXPENSE				
Current tax	61,598	4,277	58,794	3,976
Deferred tax	17,105	3,258	14,838	10,544
Under / (over) provided in prior years	127	–	–	–
Income tax expense attributable to profit from continuing operations	78,830	7,535	73,632	14,520
Deferred income tax (revenue) expense included in income tax expense comprises:				
• Decrease / (increase) in deferred tax assets (refer Note 16)	8,424	12,740	8,648	14,599
• (Decrease) / increase in deferred tax liabilities (refer Note 25)	8,681	(9,482)	6,190	(4,055)
	17,105	3,258	14,838	10,544

(B) NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX PAYABLE	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Profit from continuing operations before income tax expense	262,054	89,739	260,270	86,031
	262,054	89,739	260,270	86,031
Tax at the Australian tax rate of 30% (2006 – 30%)	78,617	26,922	78,081	25,809
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Capital gains / (losses)	113	(5,498)	113	(2,115)
Consulting	20	260	–	260
Entertainment	484	70	447	66
Research and development	(150)	(1,413)	(150)	(1,413)
Other	1,745	(5,621)	756	(4,744)
Non assessable income	(2,126)	(7,185)	(2,473)	(3,343)
Adoption of Fixed Assets Cost Model Methodology	–	–	(3,142)	–
Under / (over) Provided in prior years	127	–	–	–
Income tax expense	78,830	7,535	73,632	14,520

(C) TAX CONSOLIDATION LEGISLATION

QR and its wholly owned Australian controlled entities implemented tax consolidation legislation from 1 July 2003. On adoption of tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing and funding agreement which, in the opinion of the directors, limits the joint and several liability of the wholly owned entities in the case of a default by the head entity, QR.

The QR consolidated group has amended the tax funding methodology effective 1 July 2006 and adopted a 'group allocation approach'. This method complies with UIG 1052 and AASB 112 with tax amounts measured as if each entity in the tax consolidated group were a stand alone taxpayer

in its own right. Comparative tax calculations for 2006 for both the parent and the consolidated group have been disclosed in accordance with this methodology.

Under the terms of the tax funding agreement, the wholly owned entities fully compensate QR for any current tax payable assumed and are compensated by QR for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to QR under tax consolidation legislation. The funding amounts are recognised as non-current intercompany receivables or payables (Note 1(h)).

8 CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Cash on hand	232	292	220	281
Bank balances	17,728	31,976	(5,218)	6,474
Short-term investments	30,090	29,178	30,090	29,178
	48,050	61,446	25,092	35,933
Trust monies	17	12	17	12
	48,067	61,458	25,109	35,945

NOTES TO THE FINANCIAL STATEMENTS

9 CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	Consolidated		Parent	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Trade receivables	250,328	235,422	199,390	191,508
Provision for impairment	(1,394)	(1,289)	(1,384)	(1,238)
	248,934	234,133	198,006	190,270
Intercompany receivables	–	–	19,802	21,779
Transport Service Contracts	16,355	6,347	16,355	6,347
Other receivables	72,199	222,739	68,349	88,081
Lease receivables	597	469	597	466
	338,085	463,688	303,109	306,943

10 CURRENT ASSETS – INVENTORIES

	Consolidated		Parent	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Raw materials	190,025	182,925	171,729	169,300
Less: provision for inventory obsolescence	(479)	(526)	–	–
Work in progress	11,604	9,002	11,604	9,002
	201,150	191,401	183,333	178,302

11 DERIVATIVE FINANCIAL INSTRUMENTS

	Consolidated		Parent	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Current assets				
Forward Foreign Exchange contracts [B]	4,003	2,979	4,003	2,979
Commodity Swap contracts [B]	11,873	34,082	11,873	34,082
Total current derivative financial instrument assets	15,876	37,061	15,876	37,061
Non-current assets				
Forward Foreign Exchange contracts [B]	908	4,598	908	4,598
Commodity Swap contracts [B]	11,323	21,225	11,323	21,225
Total non-current derivative financial instrument assets	12,231	25,823	12,231	25,823
Total derivative financial instrument assets	28,107	62,884	28,107	62,884
Current liabilities				
Forward Foreign Exchange contracts [B]	25,589	4,509	25,589	4,509
Commodity Swap contracts [B]	46	–	46	–
Total current derivative financial instrument liabilities	25,635	4,509	25,635	4,509
Non-current liabilities				
Forward Foreign Exchange contracts [B]	22,626	2,058	22,626	2,058
Commodity Swap contracts [B]	1,751	–	1,751	–
Total non-current derivative financial instrument liabilities	24,377	2,058	24,377	2,058
Total derivative financial instrument liabilities	50,012	6,567	50,012	6,567

At balance date, all derivative instruments were contracted by the parent entity.

(A) INSTRUMENTS USED BY THE QR GROUP

The QR Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in foreign exchange rates and diesel prices in accordance with the QR Group's financial risk management policies (refer to Note 2).

(i) Forward exchange contracts – cash flow hedges

The QR Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in foreign exchange rates. The QR Group enters into forward exchange contracts to hedge against identifiable currency risks associated with the purchase of components used in a number of capital investment contracts. The cash flows are expected to occur at various dates within the next three years.

Restatement of comparative information:

The comparative information for forward exchange contracts (cash flow hedges) have been restated due to a change in accounting treatment. In the prior financial year, both a financial asset and a financial liability is disclosed for each forward exchange contract. In the current financial year, the market value at balance date for each forward exchange contract has been recognised as either a financial asset or financial liability in accordance with AASB 139. This change in accounting treatment has a nil impact on the net total of financial assets and financial liabilities.

(ii) Commodity swap contracts – cash flow hedges

The QR Group is party to derivative financial instruments in the normal course of business to hedge exposures to fluctuations in commodity prices. The QR Group enters into commodity swap contracts to hedge against identifiable commodity price risk associated with the purchase of diesel fuel. The cash flows are expected to occur at various dates within the next three years.

NOTES TO THE FINANCIAL STATEMENTS – 11 DERIVATIVE FINANCIAL INSTRUMENTS

	Sell Australian dollars		Average exchange rate	
	2007	2006	2007	2006
	\$'000	\$'000		
Buy US Dollars				
Maturity				
Less than 1 year	122,155	139,995	0.756	0.735
Greater than 1 year	213,268	195,200	0.753	0.735
Buy Euro				
Maturity				
Less than 1 year	122,766	65,930	0.579	0.582
Greater than 1 year	82,683	118,493	0.574	0.574
Buy Swedish Krona				
Maturity				
Less than 1 year	5,426	10,296	4.847	5.115
Greater than 1 year	13,939	6,394	5.417	5.084
Buy Japanese Yen				
Maturity				
Less than 1 year	36	1,043	81.316	82.880
	2007	2006	2007	2006
	US\$'000	US\$'000	US\$/Barrel	US\$/Barrel
Buy Singapore Gas Oil 0.5%				
Maturity				
Less than 1 year	54,759	43,565	70.566	65.127
Greater than 1 year	84,604	59,237	73.314	69.195
Buy Brent Oil				
Maturity				
Less than 1 year	–	–	0.000	0.000
Greater than 1 year	10,676	–	68.877	0.000

Amounts disclosed above represent currency sold measured at the contracted rate.

(B) HEDGE ACCOUNTING

The QR Group designates derivatives that are for highly probable forecast transactions (cash flow hedges). At balance date, 100% of commodity hedges were designated for hedge accounting and 50% of hedges for capital expenditure were designated for hedge accounting.

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 QR Group adjusts the initial measurement of the component recognised in the Consolidated Balance Sheet by the related amount deferred in equity.

At balance date, these contracts recognised directly in equity were net losses of \$10.7 million (2006 net gains of \$53.7 million).

During the year ended 30 June 2007, gains of \$12.8 million (2006 \$22.8 million) were removed from equity and included in the acquisition cost of components and \$0.7 million (2006 \$1.2 million) was transferred to profit and loss.

(C) CREDIT RISK EXPOSURES

Credit risk on derivative contracts is minimised as counterparties are approved by the QR Board of Directors and are recognised financial intermediaries with acceptable credit ratings determined by a recognised ratings agency, in accordance with a credit risk management framework.

(D) INTEREST RATE RISK EXPOSURES

The Queensland Treasury Corporation manages the interest rate risk exposure of the QR Group. 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 debt portfolio.

The QR Group's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following tables.

Consolidated

	Weighted average interest rate	Floating interest	Fixed interest maturing in:			Non- interest bearing	Total
		\$'000	1 year or less	Over 1 to 5 years	Over 5 years	\$'000	\$'000
2007							
Financial assets							
Cash and deposits	6.5%	50,708	–	–	–	(2,642)	48,066
Receivables	0.7%	27	716	6,359	26,846	339,556	373,505
		50,735	716	6,359	26,846	336,914	421,571
Financial liabilities							
Trade and other creditors	0.4%	22,244	–	–	–	355,421	377,665
Borrowings	6.3%	1,158,908	420,323	760,405	2,217,496	–	4,557,132
Lease liabilities	8.5%	–	1	–	8,422	–	8,423
		1,181,152	420,324	760,405	2,225,918	355,421	4,943,220
Net financial assets / (liabilities)		(1,130,417)	(419,608)	(754,046)	(2,199,072)	(18,507)	(4,521,649)
2006							
Financial assets							
Cash and deposits	5.4%	59,662	–	–	–	1,796	61,458
Receivables	0.6%	13	569	1,915	34,907	464,631	502,035
		59,675	569	1,915	34,907	466,427	563,493
Financial liabilities							
Trade and other creditors	0.2%	21,555	–	–	–	530,683	552,238
Borrowings	6.2%	1,959,561	–	591,646	1,943,063	–	4,494,270
Lease liabilities	8.5%	–	1	3	8,486	–	8,490
		1,981,116	1	591,649	1,951,549	530,683	5,054,998
Net financial assets / (liabilities)		(1,921,441)	568	(589,734)	(1,916,642)	(64,256)	(4,491,505)

NOTES TO THE FINANCIAL STATEMENTS – 11 DERIVATIVE FINANCIAL INSTRUMENTS

Parent

	Weighted average interest rate	Floating interest	Fixed interest maturing in:			Non- interest bearing	Total
		\$'000	1 year or less	Over 1 to 5 years	Over 5 years	\$'000	\$'000
2007							
Financial assets							
Cash and deposits	6.3%	27,835	–	–	–	(2,727)	25,108
Receivables	0.3%	27	716	6,359	26,846	897,621	931,570
		27,862	716	6,359	26,846	894,894	956,678
Financial liabilities							
Trade and other creditors	0.4%	22,244	–	–	–	323,316	345,560
Non-interest bearing loan	0.0%	–	–	–	–	88,031	88,031
Borrowings	6.3%	1,158,908	420,323	760,405	2,217,496	–	4,557,132
Lease liabilities	8.5%	–	–	–	8,420	–	8,420
		1,181,152	420,323	760,405	2,225,916	411,347	4,999,143
Net financial assets / (liabilities)		(1,153,290)	(419,607)	(754,046)	(2,199,070)	483,547	(4,042,465)
2006							
Financial assets							
Cash and deposits	5.3%	34,160	–	–	–	1,783	35,943
Receivables	0.4%	4,413	572	1,915	34,907	892,440	934,247
		38,573	572	1,915	34,907	894,223	970,190
Financial liabilities							
Trade and other creditors	0.4%	21,555	–	–	–	318,918	340,473
Non-interest bearing loan	0.0%	–	–	–	–	65,908	65,908
Borrowings	6.2%	1,959,561	–	591,646	1,943,063	–	4,494,270
Lease liabilities	8.5%	–	–	–	8,485	–	8,485
		1,981,116	–	591,646	1,951,548	384,826	4,909,136
Net financial assets / (liabilities)		(1,942,543)	572	(589,731)	(1,916,641)	509,397	(3,938,946)

(E) NET FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The carrying amounts and net fair values of financial assets and liabilities at balance date are:

Consolidated	Carrying amount		Net fair value	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Recognised financial assets				
Cash and deposits	48,066	61,458	48,066	61,458
Receivables	373,505	502,035	373,505	502,035
Derivative assets	28,107	62,883	28,107	62,883
	449,678	626,376	449,678	626,376
Recognised financial liabilities				
Trade and other creditors	377,665	552,238	377,665	552,238
Borrowings	4,557,132	4,494,270	4,527,763	4,565,676
Lease liabilities	8,423	8,490	8,423	8,490
Derivative liabilities	50,012	6,567	50,012	6,567
	4,993,232	5,061,565	4,963,863	5,132,971
Net financial assets / (liabilities)	(4,543,554)	(4,435,189)	(4,514,185)	(4,506,595)

The net fair values of all recognised financial assets and liabilities are equal to their historical cost except borrowings, derivative assets and derivative liabilities, which are calculated using market value.

Parent	Carrying amount		Net fair value	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Recognised financial assets				
Cash and deposits	25,108	35,943	25,108	35,943
Receivables	931,570	934,247	931,570	934,247
Derivative assets	28,107	62,883	28,107	62,883
	984,785	1,033,073	984,785	1,033,073
Recognised financial liabilities				
Trade and other creditors	345,560	340,473	345,560	340,473
Borrowings	4,557,132	4,494,270	4,527,763	4,565,676
Lease liabilities	8,420	8,485	8,420	8,485
Non-interest bearing loan	88,031	65,907	88,031	65,907
Derivative liabilities	50,013	6,567	50,013	6,567
	5,049,156	4,915,702	5,019,787	4,987,108
Net financial assets / (liabilities)	(4,064,371)	(3,882,629)	(4,035,002)	(3,954,035)

The net fair values of all recognised financial assets and liabilities are equal to their historical cost except borrowings, derivative assets and derivative liabilities, which are calculated using market value.

NOTES TO THE FINANCIAL STATEMENTS – 11 DERIVATIVE FINANCIAL INSTRUMENTS

(F) CONTINGENT ASSETS AND LIABILITIES

	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Unrecognised financial assets				
Parent company guarantees	297,372	207,485	297,372	207,485
Bank guarantees	284,323	393,469	280,781	389,827
Insurance company guarantees	35,552	31,650	35,552	31,650
	617,247	632,604	613,705	628,962
Unrecognised financial liabilities				
Bank guarantees	67,748	65,930	67,748	65,930
Letters of credit	565	650	565	650
	68,313	66,580	68,313	66,580

The QR Group has issued and received credit support in the form of guarantees and letters of credit. The net fair value of these arrangements represents the maximum claim available in accordance with the agreement. Refer to Note 32 for QR Group contingencies overview.

12 CURRENT ASSETS – OTHER CURRENT ASSETS

	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Prepayments	15,017	34,960	25,197	42,708
	15,017	34,960	25,197	42,708

13 NON-CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Intercompany receivables	–	–	594,461	601,094
Provision for impairment	–	–	–	(10,717)
	–	–	594,461	590,377
Deposits	8,420	8,485	8,420	8,485
Lease receivable	749	1,347	749	1,347
Other receivables	26,250	28,515	24,830	27,096
	35,419	38,347	628,460	627,305

14 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

Consolidated	Assets under Construction	Land	Buildings	Rollingstock	Plant and equipment	Infrastructure	Leased property	Leased Rollingstock	Leased Infrastructure	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
At 1 July 2005										
Cost	524,917	224,848	442,803	952,324	326,773	4,028,188	3,041	1,533,755	803	8,037,452
Accumulated depreciation and impairment losses	(4,767)	–	(59,128)	(159,592)	(79,667)	(178,559)	(857)	(270,694)	(121)	(753,385)
Net book amount	520,150	224,848	383,675	792,732	247,106	3,849,629	2,184	1,263,061	682	7,284,067
Year ended 30 June 2006										
Opening net book amount	520,150	224,848	383,675	792,732	247,106	3,849,629	2,184	1,263,061	682	7,284,067
Acquisitions of subsidiary	11,543	43,993	14,693	278,310	14,513	47,539	–	–	–	410,591
Additions	665,546	–	171	2,817	47,544	304	–	10,856	136	727,374
Transfers	(550,746)	4,279	5,099	173,963	9,788	353,040	–	4,577	–	–
Disposals	(8,547)	(6,610)	(2,556)	(11,133)	(20,328)	(3,133)	–	(2,762)	(35)	(55,104)
Impairment expense	(4,289)	–	(281)	(2,024)	(1,903)	(1,113)	–	(2,006)	–	(11,616)
Depreciation/ amortisation expense	–	–	(21,223)	(67,553)	(49,390)	(154,833)	(569)	(113,612)	(276)	(407,456)
Closing net book amount	633,657	266,510	379,578	1,167,112	247,330	4,091,433	1,615	1,160,114	507	7,947,856
At 30 June 2006										
Cost	642,713	266,510	459,418	1,402,986	376,726	4,425,668	3,041	1,548,478	695	9,126,235
Accumulated depreciation and impairment losses	(9,056)	–	(79,840)	(235,874)	(129,396)	(334,235)	(1,426)	(388,364)	(188)	(1,178,379)
Net book amount	633,657	266,510	379,578	1,167,112	247,330	4,091,433	1,615	1,160,114	507	7,947,856

NOTES TO THE FINANCIAL STATEMENTS – 14 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

Consolidated	Assets under Construction	Land	Buildings	Rollingstock	Plant and equipment	Infrastructure	Leased property	Leased Rollingstock	Leased Infrastructure	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Year ended 30 June 2007										
Opening net book amount	633,657	266,510	379,578	1,167,112	247,330	4,091,433	1,615	1,160,114	507	7,947,856
Acquisitions of subsidiary	–	–	–	–	–	–	–	–	–	–
Additions	1,313,532	(1,341)	5,947	124,980	29,718	778	–	2,118	95	1,475,827
Transfers	(582,019)	37,484	19,815	191,088	51,607	209,707	17	72,301	–	–
Disposals	(13,010)	(2,931)	(2,716)	(5,251)	(17,374)	(2,280)	–	(101,180)	–	(144,742)
Impairment expense	(1,411)	(3,428)	(8,502)	(7,049)	(4,033)	(6,131)	–	(1,842)	–	(32,396)
Impairment reversal	–	–	721	20,959	649	2,541	–	40,671	–	65,541
Depreciation/ amortisation expense	–	–	(16,966)	(101,047)	(48,848)	(160,270)	(491)	(100,592)	(116)	(428,330)
Closing net book amount	1,350,749	296,294	377,877	1,390,792	259,049	4,135,778	1,141	1,071,590	486	8,883,756
At 30 June 2007										
Cost	1,361,216	299,722	482,012	1,708,443	422,655	4,633,506	3,058	1,460,590	790	10,371,992
Accumulated depreciation and impairment losses	(10,467)	(3,428)	(104,135)	(317,651)	(163,606)	(497,728)	(1,917)	(389,000)	(304)	(1,488,236)
Net book amount	1,350,749	296,294	377,877	1,390,792	259,049	4,135,778	1,141	1,071,590	486	8,883,756

Negative expense for Land relates to assets impaired during the year.

Parent	Assets under Construction	Land	Buildings	Rollingstock	Plant and equipment	Infrastructure	Leased property	Leased Rollingstock	Leased Infrastructure	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
At 1 July 2005										
Cost	524,077	214,713	425,746	952,324	272,225	4,027,493	3,041	1,532,375	58	7,952,052
Accumulated depreciation and impairment losses	(4,767)	–	(58,675)	(159,592)	(74,137)	(178,482)	(857)	(270,619)	(9)	(747,138)
Net book amount	519,310	214,713	367,071	792,732	198,088	3,849,011	2,184	1,261,756	49	7,204,914
Year ended 30 June 2006										
Opening net book amount	519,310	214,713	367,071	792,732	198,088	3,849,011	2,184	1,261,756	49	7,204,914
Additions	663,307	–	154	2,817	41,924	304	–	10,846	–	719,352
Transfers	(550,746)	4,279	5,099	173,963	9,788	353,040	–	4,577	–	–
Disposals	(8,547)	(6,610)	(2,556)	(11,133)	(19,529)	(3,133)	–	(2,762)	–	(54,270)
Impairment expense	(4,289)	–	(281)	(2,024)	(1,903)	(1,113)	–	(2,006)	–	(11,616)
Depreciation/ amortisation expense	–	–	(20,768)	(67,553)	(41,265)	(154,755)	(569)	(113,540)	(5)	(398,455)
Closing net book amount	619,035	212,382	348,719	888,802	187,103	4,043,354	1,615	1,158,871	44	7,459,925
At 30 June 2006										
Cost	628,091	212,382	427,651	1,124,676	303,055	4,377,434	3,041	1,547,086	54	8,623,470
Accumulated depreciation and impairment losses	(9,056)	–	(78,932)	(235,874)	(115,952)	(334,080)	(1,426)	(388,215)	(10)	(1,163,545)
Net book amount	619,035	212,382	348,719	888,802	187,103	4,043,354	1,615	1,158,871	44	7,459,925

NOTES TO THE FINANCIAL STATEMENTS – 14 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

Parent	Assets under Construction	Land	Buildings	Rollingstock	Plant and equipment	Infrastructure	Leased property	Leased Rollingstock	Leased Infrastructure	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Year ended 30 June 2007										
Opening net book amount	619,035	212,382	348,719	888,802	187,103	4,043,354	1,615	1,158,871	44	7,459,925
Additions	1,318,718	(1,341)	384	109,686	21,308	1,091	–	3,357	–	1,453,203
Transfers	(582,019)	37,484	19,815	191,088	50,770	210,544	17	72,301	–	–
Disposals	(13,010)	(2,931)	(2,716)	(5,225)	(16,169)	(2,280)	–	(101,180)	–	(143,511)
Impairment expense	(1,411)	(3,428)	(8,502)	(7,049)	(4,033)	(6,131)	–	(1,842)	–	(32,396)
Impairment expense reversed	–	–	721	20,959	649	2,541	–	40,671	–	65,541
Depreciation/ amortisation expense	–	–	(15,400)	(75,064)	(44,000)	(157,609)	(491)	(100,592)	(6)	(393,162)
Closing net book amount	1,341,313	242,166	343,021	1,123,197	195,628	4,091,510	1,141	1,071,586	38	8,409,600
At 30 June 2007										
Cost	1,351,780	245,594	444,714	1,414,865	344,298	4,586,577	3,058	1,460,582	54	9,851,522
Accumulated depreciation and impairment losses	(10,467)	(3,428)	(101,693)	(291,668)	(148,670)	(495,067)	(1,917)	(388,996)	(16)	(1,441,922)
Net book amount	1,341,313	242,166	343,021	1,123,197	195,628	4,091,510	1,141	1,071,586	38	8,409,600

(A) VALUATIONS OF PROPERTY, PLANT AND EQUIPMENT

As disclosed in Note 1(p), effective from 1 July 2006 all assets are recorded using cost values.

Assets aligning with impaired cash generating unit's were written down to net realisable value in use or their fair value less costs to sell, in accordance with AASB 136 *Impairment of Assets* (refer Note 15).

(B) LEASE RENTALS

Some fixed assets are leased to tenants with rents payable monthly. Minimum lease payments not recognised in the financial statements are receivable as follows:

	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Within one year	5,020	4,929	5,020	4,929
Later than one year but not later than five years	10,573	10,970	10,573	10,970
Later than five years	23,069	22,396	23,069	22,396
Net book amount	38,662	38,295	38,662	38,295

15 IMPAIRMENT

As at 30 June 2007, QR had identified the following impaired cash-generating units (CGUs) under AASB 136 – *Impairment of Assets*, which are based on the key product lines of QR (refer Note 1(q) for impairment of assets policy) :

CGU	Description
Bulk Freight	Haulage of bulk freight
Queensland Regional Freight	Haulage of intrastate intermodal freight
Intermodal (Other)	Haulage of interstate intermodal freight
Intermodal (NLA)	Haulage of intermodal freight
Tourist Train	Passenger services – tourist trains
Heritage Train	Passenger services – heritage trains

The CGUs identified remained unchanged from 30 June 2006, with the exception of Containerised Freight, which has now been separated into Queensland Regional Freight and Intermodal (Other) to reflect the disaggregation of their operations into intrastate and interstate haulage.

An impairment assessment was undertaken based on the identified CGUs. As a result, six CGUs on a stand-alone basis were impaired as at 30 June 2007. The impairment is due to lower than commercial returns in the Bulk Freight, Queensland Regional Freight, Intermodal (Other), Intermodal (NLA), Tourist Train and Heritage Train businesses. These lower returns are a result of:

- providing uneconomic services to regional Queensland (bulk and intermodal freight); and
- slower than required cost reform within the six impaired CGUs.

The CGUs were tested for impairment using value-in-use calculations. The recoverable amount for the Queensland Regional Freight, Intermodal (Other) and Heritage Train businesses was fair value less cost to sell. The recoverable amount for the Intermodal (NLA) and Tourist Train businesses was at their value-in-use.

In addition to CGU assets impaired under AASB 136, Network Access land acquired as corridor land will be surrendered to the Department of Natural Resources and Water for a nominal value. Corporate land has also been identified as being subject to a binding agreement to be transferred at nominal proceeds. Accordingly, these assets have been assessed as being impaired.

Cash-Generating Unit	Impairment amount 30 June 2007 \$'000	Impairment amount 30 June 2006 \$'000
Queensland Regional Freight	(18,785)	–
Intermodal (Other)	(7,542)	(6,301)
Tourist Train	(2,640)	–
Heritage Train	–	(516)
Network Access	(963)	–
QR Land	(2,466)	–
Total QR	(32,396)	(6,817)
Intermodal (NLA)	(12,373)	–
Total QR Consolidated	(44,769)	(6,817)

NOTES TO THE FINANCIAL STATEMENTS – 15 IMPAIRMENT

The recoverable amount for the Bulk Freight business was at value-in-use, which determined that the CGU is no longer fully impaired. Hence the impairment loss previously recognised for Bulk Freight assets was partially reversed (\$26.9 million) to the extent that the carrying amount of

assets was equal to their value-in-use. Additionally a number of assets had been transferred from Bulk Freight and Queensland Regional Freight into CGU's that are not impaired. Hence the impairment loss previously recognised for these assets was fully reversed.

	Impairment reversal 30 June 2007	Impairment amount 30 June 2006
Cash-Generating Unit	\$'000	\$'000
Bulk Freight (Queensland)	56,130	(4,798)
Queensland Regional Freight	9,411	–
Total QR	65,541	(4,798)

The amount of impairment and impairment reversal recognised for the year ended 30 June 2007 by reportable segment is as follows:

	Impairment amount 30 June 2007	Impairment amount 30 June 2006
Reportable Segment	\$'000	\$'000
Freight	(38,700)	(11,099)
Passengers	(2,640)	(516)
Network Access	(963)	–
Other	(2,466)	–
Total QR Consolidated	(44,769)	(11,615)

	Impairment reversal 30 June 2007	Impairment reversal 30 June 2006
Reportable Segment	\$'000	\$'000
Freight	65,541	–

GOODWILL (NLA GROUP AND QRNH GROUP)

As from 1 July 2005, goodwill is no longer amortised but is now subject to annual impairment testing. An impairment loss was recognised for the continuing operations of the NLA Group in the 2007 financial year.

	Consolidated Goodwill	Parent Goodwill
	\$'000	\$'000
At 1 July 2005		
Cost (gross carrying amount)	37,425	–
Accumulated amortisation and impairment	–	–
Net carrying amount	37,425	–
Year ended 30 June 2006		
At 1 July 2005, net of accumulated amortisation	37,425	–
Additions	38,563	–
Impairment	–	–
Amortisation	–	–
	75,988	–
At 30 June 2006		
Cost (gross carrying amount)	75,988	–
Accumulated amortisation and impairment	–	–
Net carrying amount	75,988	–
At 1 July 2006		
Accumulated amortisation and impairment	–	–
Year ended 30 June 2007		
At 1 July 2006, net of accumulated amortisation	75,988	–
Additions	2,602	–
Impairment	(12,373)	–
Amortisation	–	–
	66,217	–
At 30 June 2007		
Cost (gross carrying amount)	78,590	–
Accumulated amortisation and impairment	(12,373)	–
Net carrying amount	66,217	–

Goodwill acquired through business combinations has been allocated to two individual cash-generating units for impairment (Bulk Freight – QRNH and Intermodal – NLA) testing. Individual goodwill is recorded in the following entities:

- NLA Group (refer Note 36); and
- QRNH Group (refer Note 36).

NLA Group

The recoverable amount of the NLA Group has been determined based on a value-in-use calculation using cash flow projections. These cash flow projections were sourced from financial budgets approved by management covering a five-year period. The discount rate applied to cash flow projections is 14.2% (2006: 12.9%) and cash

flows beyond the five-year period are extrapolated using a 2.5% growth rate (2006: 2.5%), which is the same as the long-term average growth rate for the transport industry generally.

QRNH Group

The recoverable amount of the QRNH Group is also determined based on a value-in-use calculation using cash flow projections. These cash flow projections were sourced from financial budgets approved by management covering a five-year period. The discount rate applied to cash flow projections is 13.4% (2006: 12.9%) and cash flows beyond the five-year period are extrapolated using a 2.5% growth rate (2006: 2.5%), which is the expected future growth rate of the QRNH Group.

NOTES TO THE FINANCIAL STATEMENTS – 15 IMPAIRMENT

Carrying amount of goodwill allocated to each of the cash-generating units	2007 \$'000	2006 \$'000
NLA	25,052	37,425
QRNH	41,165	38,563
Total	66,217	75,988

Key assumptions used in value-in-use calculations for the QRNH and NLA groups for 30 June 2007

The following describes each key assumption on which management has based its cash flow projections when determining the value-in-use of the NLA and QRNH groups:

- Five-year projected cash flows of the NLA and QRNH groups as per management forecast.
- For the QRNH Group, the value-in-use calculations assume that over the next five years material customer contracts are retained.
- QR's cost of capital remaining stable over the next five-year period.

16 NON-CURRENT ASSETS – DEFERRED TAX ASSETS

The balance comprises temporary differences attributable to:	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<i>Amounts recognised in profit or loss</i>				
Accrued expenses	1,204	27,445	685	27,071
Capital losses	5,325	2,182	5,325	2,182
Foreign exchange losses	4,388	330	4,388	330
Provisions	121,892	110,601	116,183	104,410
Superannuation contributions	216	114	–	–
Tax losses	108,451	170,049	108,278	169,876
Unearned revenue	13,090	11,858	12,221	11,445
Various adjustments – temporary differences	4,968	6,990	4,946	6,968
	259,534	329,569	252,026	322,282

The amount of the deferred tax assets attributable to carry forward losses is \$108.5 million (2006: \$170 million). This benefit will only be obtained if:

- the QR Group derives future assessable income of a nature and of an amount sufficient to enable the benefits from the deductions for the loss to be realised.
- the QR Group continues to comply with the conditions for deductibility imposed by income tax legislation.
- no changes in income tax legislation adversely affect the QR Group in realising the benefit from the deductions for the loss.

17 NON-CURRENT ASSETS – INTANGIBLE ASSETS

Consolidated	Goodwill \$'000	Key customer contracts and brand name \$'000	Computer software \$'000	Total \$'000
At 1 July 2005				
Cost	37,425	8,564	38,720	84,709
Accumulated amortisation and impairment	–	–	(6,166)	(6,166)
Net book amount	37,425	8,564	32,554	78,543
Year ended 30 June 2006				
Opening net book amount	37,425	8,564	32,554	78,543
Additions	–	7	634	641
Acquisition of subsidiary	38,563	–	–	38,563
Disposals	–	–	(4)	(4)
Amortisation charge	–	(605)	(6,272)	(6,877)
Closing net book amount	75,988	7,966	26,912	110,866

Consolidated	Goodwill \$'000	Key customer contracts and brand name \$'000	Computer software \$'000	Total \$'000
At 30 June 2006				
Cost	75,988	8,571	39,324	123,883
Accumulated amortisation and impairment	–	(605)	(12,412)	(13,017)
Net book amount	75,988	7,966	26,912	110,866
Year ended 30 June 2007				
Opening net book amount	75,988	7,966	26,912	110,866
Additions	–	–	19,615	19,615
Acquisition of subsidiary	2,602	–	–	2,602
Disposals	–	–	–	–
Amortisation charge	–	(1,210)	(7,498)	(8,708)
Impairment expense	(12,373)	–	–	(12,373)
Closing net book amount	66,217	6,756	39,029	112,002
At 30 June 2007				
Cost	78,590	8,571	58,939	146,100
Accumulated amortisation and impairment	(12,373)	(1,815)	(19,910)	(34,098)
Net book amount	66,217	6,756	39,029	112,002

NOTES TO THE FINANCIAL STATEMENTS – 17 NON-CURRENT ASSETS – INTANGIBLE ASSETS

Parent	Goodwill \$'000	Key customer contracts and brand name \$'000	Computer software \$'000	Total \$'000
At 1 July 2005				
Cost	–	–	37,352	37,352
Accumulated amortisation and impairment	–	–	(5,830)	(5,830)
Net book amount	–	–	31,522	31,522
Year ended 30 June 2006				
Opening net book amount	–	–	31,522	31,522
Additions	–	–	455	455
Disposals	–	–	(4)	(4)
Amortisation charge	–	–	(5,916)	(5,916)
Closing net book amount	–	–	26,057	26,057

Parent	Goodwill \$'000	Key customer contracts and brand name \$'000	Computer software \$'000	Total \$'000
At 30 June 2006				
Cost	–	–	37,778	37,778
Accumulated amortisation and impairment	–	–	(11,721)	(11,721)
Net book amount	–	–	26,057	26,057
Year ended 30 June 2007				
Opening net book amount	–	–	26,057	26,057
Additions	–	–	19,460	19,460
Disposals	–	–	–	–
Amortisation charge	–	–	(7,114)	(7,114)
Closing net book amount	–	–	38,403	38,403
At 30 June 2007				
Cost	–	–	57,238	57,238
Accumulated amortisation and impairment	–	–	(18,835)	(18,835)
Net book amount	–	–	38,403	38,403

The consolidated research and development costs recognised as an expense during the reporting period were \$0.55 million (2006: \$2.9 million).

The amortisation of computer software is disclosed in Note 6.

There was no material change in the useful life, amortisation method or residual value of intangible assets during the current financial year.

18 NON-CURRENT ASSETS – INVENTORIES

	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Inventory available for use	41,126	39,409	41,126	39,409
Less: provision for inventory obsolescence	(5,019)	(5,696)	(5,019)	(5,696)
	36,107	33,713	36,107	33,713

19 NON-CURRENT ASSETS – OTHER NON-CURRENT ASSETS

	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Prepayment	37,819	24,433	37,819	24,433
Investments	3,606	2,684	18,922	18,510
Other	300	345	–	45
	41,725	27,462	56,741	42,988

20 CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Trade payables	299,678	256,492	256,554	218,260
Intercompany payables	–	–	13,504	1,493
Dividend payable	151,493	68,530	151,493	68,530
Trusts	5	12	5	12
Other payables	77,982	295,735	75,497	120,709
	529,158	620,769	497,053	409,004

21 CURRENT LIABILITIES – INTEREST BEARING LIABILITIES

	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Secured				
Finance Lease liabilities (Note 33(c))			–	–
Unsecured				
Queensland Treasury Corporation borrowings	321,784	418,923	321,784	418,923
Total current interest bearing borrowings	321,785	418,924	321,784	418,923

The short term borrowing arrangements with Queensland Treasury Corporation are subject to annual review. The total amount of credit unused as at 30 June 2007 was \$528.20 million.

Borrowings are sourced from the QR Client Specific Pool subject to annual approval of the Queensland State Treasurer. QR may draw up to the amount of the approved borrowing program (refer Note 24).

In addition there are standby credit arrangements with the Commonwealth Bank of Australia in the form of a bank overdraft totalling \$2 million.

NOTES TO THE FINANCIAL STATEMENTS

22 CURRENT LIABILITIES – PROVISIONS

	Consolidated		Parent	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Litigation and Workers Compensation Provision ^(a)	13,872	12,154	13,872	12,154
Other	1,892	2,925	500	1,300
	15,764	15,079	14,372	13,454

^(a) Includes Provisions taken up for the crystallised portion of the items referred to in Note 32.

Movements in provisions during the financial year are set out below:

	Litigation and Workers Compensation Provision		Other Provision	
	Consolidated 2007	Parent 2007	Consolidated 2007	Parent 2007
	\$'000	\$'000	\$'000	\$'000
Carrying amount at start of year	12,154	12,154	2,925	1,300
Additional provisions recognised	7,181	7,181	205	–
Payments	(4,358)	(4,358)	(1,238)	(800)
Unused amounts transferred	(1,105)	(1,105)	–	–
Carrying amount at end of year	13,872	13,872	1,892	500

23 CURRENT LIABILITIES – OTHER CURRENT LIABILITIES

	Consolidated		Parent	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Employee Benefits ^(a)	123,063	101,327	111,410	90,112
Income in advance	47,539	30,943	47,511	30,893
Other current liabilities	16,635	(37,134)	15,735	11,764
	187,237	95,136	174,656	132,769

^(a) In QR's prior year calculation for the accrued liability for annual leave, on-costs were not included as required by AASB 119 and the effect of the net present value calculation on employee accrued liabilities was not performed. These adjustments were made in 2006/07 in accordance with AASB 108.42 which resulted in restatement of 01 July 2006 opening balances, including Retained Earnings (refer Note 30).

For disclosure purposes, Employee Benefits Liabilities as at 30 June 2007 and comparatives have been reclassified as Other Current Liabilities from Provisions in accordance with AASB 119.

24 NON-CURRENT LIABILITIES – INTEREST BEARING LIABILITIES

	Consolidated		Parent	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Secured				
Finance Lease liabilities (Note 33(c))	8,422	8,488	8,420	8,485
Unsecured				
Queensland Treasury Corporation borrowings	4,235,348	4,075,348	4,235,348	4,075,348
Total non-current interest bearing liabilities	4,243,770	4,083,836	4,243,768	4,083,833

25 NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES

	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
The balance comprises temporary differences attributable to:				
<i>Amounts recognised in profit or loss</i>				
Accrued income	2,204	3,421	1,617	2,591
Consumables and spare parts	29,851	24,994	29,851	24,923
Foreign exchange gains	46	887	46	887
Prepayments	396	288	260	223
Tangible fixed assets	880,873	881,843	873,494	877,226
Various adjustments – temporary difference	7,140	395	7,098	325
	920,510	911,828	912,366	906,175
Amounts recognised in equity – tangible fixed assets	–	–	–	–
	920,510	911,828	912,366	906,175

26 NON-CURRENT LIABILITIES – PROVISIONS

	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Litigation and Workers Compensation Provision ^(a)	39,889	31,787	39,901	31,598
	39,889	31,787	39,901	31,598

^(a) Includes provisions taken up for the crystallised portion of the items referred to in Note 32.

Movements in Provisions during the financial year are set out below:

	Litigation and Workers Compensation Provision	
	Consolidated 2007 \$'000	Parent 2007 \$'000
Carrying amount at start of year	31,586	31,598
Additional provisions recognised	19,303	19,303
Payments	(12,105)	(12,105)
Unused amounts transferred	1,105	1,105
Carrying amount at end of year	39,889	39,901

NOTES TO THE FINANCIAL STATEMENTS

27 NON-CURRENT LIABILITIES – OTHER NON-CURRENT LIABILITIES

	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Employee benefits ^(a)	247,995	239,694	243,167	237,090
Income in advance	360,149	131,278	359,435	130,512
Operating lease liabilities	–	–	19	–
Intercompany Loans	–	–	88,031	65,908
Other non-current liabilities	1,420	1,164	–	–
	609,564	372,136	690,652	433,510

^(a) In QR's prior year calculation for the accrued liability for annual leave, on-costs were not included as required by AASB 119 and the effect of the net present value calculation on employee accrued liabilities was not performed. These adjustments were made in 2006/07 in accordance with AASB 108.42 which resulted in restatement of 01 July 2006 opening balances, including Retained Earnings (refer Note 30).

For disclosure purposes, Employee Benefits Liabilities as at 30 June 2007 and comparatives have been reclassified as Other Non-current Liabilities from Provisions in accordance with AASB 119.

28 RECEIVABLES AND PAYABLES DENOMINATED IN FOREIGN CURRENCY

	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
RECEIVABLES				
Current				
Hong Kong dollars	178	10	178	10
Malaysian ringgit	41	51	41	51
Non-current				
Canadian dollars	8,420	8,485	8,420	8,485
PAYABLES				
Current				
Hong Kong dollars	199	–	199	–
Non-current				
Canadian dollars	8,420	8,485	8,420	8,485

29 CONTRIBUTED EQUITY

	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
(A) SHARE CAPITAL				
Ordinary shares				
Fully paid ordinary shares	2,017,360	1,931,360	2,017,360	1,931,360
Share issue	367,720	86,000	367,720	86,000
Issue and paid up capital	2,385,080	2,017,360	2,385,080	2,017,360

(B) MOVEMENTS IN ORDINARY SHARE CAPITAL:

Date	Details	Number of shares	Issue price	\$'000
1 July 2004	Opening balance	1,917,060		1,917,060
	Share Issue	14,300	\$1.00	14,300
30 June 2005	Balance	1,931,360		1,931,360
1 July 2005	Opening balance	1,931,360		1,931,360
	Share Issue	86,000	\$1.00	86,000
30 June 2006	Balance	2,017,360		2,017,360
1 July 2006	Opening balance	2,017,360		2,017,360
	Share Issue	367,720	\$1.00	367,720
30 June 2007	Balance	2,385,080		2,385,080

30 RESERVES AND RETAINED PROFITS

	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
(A) RESERVES				
Hedging reserve – cash flow hedges – Note 11(b)	(10,719)	53,737	(10,719)	53,737
	(10,719)	53,737	(10,719)	53,737

Movements:

<i>Hedging reserve – cash flow hedges</i>				
Opening Balance 01 July 2006	53,737	–	53,737	–
Balance 1 July – adoption of AASB 132 and AASB 139	–	36,695	–	36,695
Revaluation	(64,456)	17,042	(64,456)	17,042
Movement	(64,456)	53,737	(64,456)	53,737
Balance 30 June	(10,719)	53,737	(10,719)	53,737

NOTES TO THE FINANCIAL STATEMENTS – 30 RESERVES AND RETAINED PROFITS

(B) RETAINED PROFITS

Movements in retained profits were as follows:

	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Retained earnings	675,045	653,706	632,122	617,324
Profit for the year	183,224	82,204	186,638	71,511
Dividends	(151,493)	(68,530)	(151,493)	(68,530)
Adjustments to retained earnings	143	7,660	–	11,817
Debt forgiveness	–	5	–	–
Balance 30 June	706,919	675,045	667,267	632,122

(C) NATURE AND PURPOSE OF RESERVES**(i) Hedging reserve – cash flow hedges**

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in Note 1(e). Amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss.

31 KEY MANAGEMENT PERSONNEL DISCLOSURES**DIRECTORS**

Directors' compensation and terms of appointment are set by the Governor in Council.

EXECUTIVES

The Board Remuneration and Succession Committee reviews the compensation and other terms of employment of the specified executives, having regard to performance against goals set at the start of the year, relevant comparative information and independent expert advice.

SERVICE AGREEMENTS

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:

Directors	Position	Term	Expiry Date
John B Prescott AC	Chairman	3 years 3 months	30 September 2009
Cr Paul Bell AM	Deputy Chairman	2 years 3 months	30 September 2008
Ronald Ashton	Director	No contract term	No expiry date
Robert Holloway	Director	2 years 3 months	30 September 2007
Peter Holmes à Court	Director	3 years 3 months	30 September 2009
Lisa Hunt	Director	2 years 3 months	30 September 2008
Paul MacDermott	Director	–	Resigned on 8 August 2006
Cr Warren McLachlan	Director	2 years 3 months	30 September 2007
Dawson Petie	Director	2 years 3 months	30 September 2008
Susan Rix	Director	2 years 3 months	30 September 2007
John West	Director	2 years 3 months	30 September 2007

John Prescott AC was appointed Chairman of the QR Board on 1 July 2006.

Peter Holmes à Court and Lisa Hunt were appointed directors of the QR Board on 1 July 2006.

Ronald Ashton is and Paul MacDermott was a director of On Track Insurance Pty Ltd.

Specified executives	Term	Expiry Date
Chief Executive Officer	1 year 6 months	1 July 2007
Chief Operating Officer	3 years	10 December 2009 with option for 2 year extension.
Chief Finance Officer	This role is currently being performed on an acting basis.	
Executive General Manager Strategy and Corporate Affairs	This role is currently being performed on an acting basis.	
Executive General Manager Human Resources	5 years	6 October 2008
Group General Manager Network Access	This role is currently being performed on an acting basis.	
Group General Manager Passenger Services	1 year	4 March 2008
Group General Manager Rollingstock and Component Services	This role is currently being performed on an acting basis.	
Group General Manager Infrastructure Services	3 years	24 April 2010 with option for 2 year extension
Group General Manager Shared Services	This role is currently being performed on an acting basis.	
Group General Manager Bulk	3 years	4 December 2009 with option for 2 year extension.
Group General Manager Coal	3 years	9 March 2009 with option for 2 year extension.
Group General Manager Intermodal and Regional	This role is currently being performed on an acting basis.	
Executive General Manager National Development	This role is currently being performed on an acting basis.	

A number of Senior Executives hold directorship on the Boards of subsidiaries within the QR Group.

TERMINATION BENEFITS FOR ALL SPECIFIED EXECUTIVES

Payment of termination benefit on early termination by the employer, other than for gross misconduct, is equal to one week total compensation for each year of QR service, plus between 6 and 18 months' total compensation, dependent on the length of the balance of the contract at the time.

DETAILS OF COMPENSATION

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

	2007	2006
	\$'000	\$'000
Key management personnel compensation		
Short-term Employee Benefits	4,175	3,241
Post-employment Benefits	576	304
Termination Benefits	491	615
Total	5,242	4,160

Short-term Employee Benefits includes cash salary and fees and non-monetary benefits. Non-monetary benefits represents the value of Reportable Fringe Benefits for the respective Fringe Benefit Tax year ending on 31 March and the estimated value of car parking provided.

NOTES TO THE FINANCIAL STATEMENTS – 31 KEY MANAGEMENT PERSONNEL DISCLOSURES

DIRECTORS OF THE QR GROUP – 2007

Specified directors	Position	Short-term benefits		Post-employment benefits		Total \$'000
		Cash salary & fees \$'000	Non-monetary benefits \$'000	Super- annuation \$'000	Retirement/ other benefits \$'000	
John B Prescott AC	Chairman	114	–	15	–	129
Cr Paul Bell AM	Deputy Chairman	37	–	4	–	41
Ronald Ashton	Director	4	–	–	–	4
Robert Holloway	Director	41	–	5	–	46
Peter Holmes à Court	Director	28	–	3	–	31
Lisa Hunt	Director	36	–	4	–	40
Paul MacDermott (resigned 8 August 2006)	Director	–	–	–	–	–
Cr Warren McLachlan	Director	44	12	4	–	60
Dawson Petie	Director	41	–	5	–	46
Susan Rix	Director	37	–	4	–	41
John West	Director	41	–	6	–	47
Total		423	12	50	–	485

During the year QR has incurred a share of the costs of maintaining the Chairman's Office in Melbourne. The payment is not considered as an employee benefit as per the provisions of AASB 124 as it is a cost reimbursement and therefore has not been included in the Chairman's compensation disclosed above.

DIRECTORS OF THE QR GROUP – 2006

Specified directors	Position	Short-term benefits		Post-employment benefits		Total \$'000
		Cash salary & fees \$'000	Non-monetary benefits \$'000	Super- annuation \$'000	Retirement/ other benefits \$'000	
Bronwyn Morris	Chairman	83	–	8	–	91
Cr Paul Bell AM	Deputy Chairman	36	–	4	–	40
Ronald Ashton	Director	4	–	–	–	4
Robert Holloway	Director	38	–	3	–	41
Richard Joel AM (Resigned 31/05/06)	Director	33	–	3	–	36
Paul MacDermott	Director	4	–	–	–	4
Cr Warren McLachlan	Director	40	–	3	–	43
Dawson Petie	Director	48	–	4	–	52
Susan Rix	Director	40	–	–	–	40
John West	Director	39	–	3	–	42
Cathie Wood	Director	35	–	3	–	38
Total		400	–	31	–	431

OTHER KEY MANAGEMENT PERSONNEL OF THE QR GROUP – 2007

Specified Executives	Short-term benefits		Post-employment benefits		Long-term Benefits	Total \$'000
	Cash salary & fees \$'000	Non-monetary benefits \$'000	Super-annuation \$'000	Retirement/ other benefits \$'000	Long Service Leave \$'000	
Chief Executive Officer ⁽¹⁾	518	43	59	–	–	620
Chief Operating Officer ⁽²⁾	281	21	36	–	–	338
Chief Finance Officer ⁽³⁾	189	24	21	192	80	506
Executive General Manager Strategy and Corporate Affairs ⁽⁴⁾	208	14	23	35	91	371
Executive General Manager Human Resources	201	14	23	–	–	238
Group General Manager Network Access	230	24	28	–	–	282
Group General Manager Passenger Services	238	31	30	–	–	299
Group General Manager Rollingstock and Component Services	204	18	22	–	–	244
Group General Manager Infrastructure Services	231	21	25	–	–	277
Group General Manager Shared Services	221	20	25	–	–	266
Group General Manager Coal ⁽⁵⁾	253	26	28	–	–	307
Group General Manager Intermodal and Regional ⁽⁵⁾ – effective 16/04/07	50	1	5	–	–	56
Group General Manager Bulk ^{(5) (6)}	439	–	7	264	–	710
Executive General Manager National Development	211	9	23	–	–	243
Total	3,474	266	355	491	171	4,757

Total cash salary and fees for specified executives includes packaged benefits such as salary sacrifice relating to employer provided motor vehicles used by employee for private purposes, additional superannuation and any exempt benefits.

⁽¹⁾ The duties of the Chief Executive Officer have been performed by two separate officers during this term. The first officer took annual leave for the final two months of this period.

⁽²⁾ The Chief Operating Officer was seconded to perform the Chief Executive Officer role from April 2007.

⁽³⁾ The duties of the Chief Finance Officer have been performed by two separate officers during this term. The first officer resigned from QR during the period and was paid benefits that included unused annual and long service leave, and ex gratia payments.

⁽⁴⁾ The Executive GM Strategy and Corporate Affairs resigned effective 1 June 2007.

⁽⁵⁾ New positions established during 2006/07 due to restructure of Freight Group into three separate lines of business.

⁽⁶⁾ The duties of this position have been performed by two separate officers during this term.

NOTES TO THE FINANCIAL STATEMENTS – 31 KEY MANAGEMENT PERSONNEL DISCLOSURES

OTHER KEY MANAGEMENT PERSONNEL OF THE QR GROUP – 2006

	Short-term benefits		Post-employment benefits		Long-term Benefits	Total
	Cash salary & fees	Non-monetary benefits	Super-annuation	Retirement/ other benefits	Long Service Leave	
Specified Executives	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Chief Executive Officer	402	48	45	–	–	495
Chief Operating Officer ^(*)	218	22	22	615	–	877
Chief Finance Officer	177	29	20	–	–	226
Executive General Manager Strategy and Corporate Affairs	215	15	24	–	–	254
Executive General Manager Human Resources	194	3	23	–	–	220
Group General Manager QRNational	244	30	24	–	–	298
Group General Manager Network Access	201	22	15	–	–	238
Group General Manager Passenger Services	211	31	24	–	–	266
Group General Manager Rollingstock and Component Services	219	22	20	–	–	261
Group General Manager Infrastructure Services	202	24	24	–	–	250
Group General Manager Shared Services	211	14	24	–	–	249
Executive General Manager National Development	71	16	8	–	–	95
Total	2,565	276	273	615	–	3,729

^(*)The duties of the Chief Operating Officer have been performed by two separate officers during this term. The first officer resigned from QR during the period and was paid other benefits that included unused annual and long service leave and ex gratia payments

	Year of assessment	
	2007	2006
	\$'000	\$'000
Aggregate performance bonus compensation		
Aggregate performance bonus compensation	4,980	3,996
Aggregate compensation (including performance bonus compensation) paid/payable to employees to whom a performance payment is paid or payable	220,954	92,559
	2007	2006
Number of employees to whom a performance bonus is paid or payable	3,539	1,432

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.

TRANSACTIONS WITH DIRECTORS AND KEY MANAGEMENT PERSONNEL

There were no material key management personnel related party transactions during the year.

A number of directors of the QR Group are also directors of other corporations that have transacted with the QR Group. The directors do not believe that they have the individual capacity to control or significantly influence the financial and operating policies of the QR Group or the other corporations in their dealings with each other. Those corporations are therefore not considered to be director-related entities.

32 CONTINGENCIES

The QR Group had contingencies at 30 June 2007 in respect of:

(A) CONTINGENT LIABILITIES

Litigation

A number of common law claims are pending against the QR Group. Provisions are taken up for some of these exposures based on the Board's determination, and are included as such in Notes 22 and 26.

Contaminated land

QR has a number of land parcels that are affected by pollutants. The organisation will be obliged to remediate these assets in the event that their use changes, which in most cases is when the land is sold. Current land valuation take into account any land that is contaminated. Given its nature, it is not possible to provide an estimate of this exposure.

Warranties

QR has provided warranties to customers regarding construction defects. As no claims have been made under these clauses, it is not possible to provide an estimate of this exposure.

Guarantees and Letters of Credit

For information about guarantees and letters of credit given by the QR Group and the parent entity, refer to Note 11(f). For detailed disclosure of QR's jointly controlled entity's letter of credit, refer to Note 37.

(B) CONTINGENT ASSETS

QR has mortgages over infrastructure assets, the value of which is estimated at \$1.8 million (2006: \$1.8 million). For information about guarantees given to the QR Group and the parent entity, refer to Note 11(f).

NOTES TO THE FINANCIAL STATEMENTS

33 COMMITMENTS

(A) CAPITAL COMMITMENTS

Capital expenditure contracted (excluding GST) at the reporting date but not recognised as a liability is as follows:

	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Within one year	1,013,337	500,893	1,006,793	487,623
Later than one year but not later than five years	277,183	383,846	271,785	383,383
Later than five years	–	15,268	–	15,268
	1,290,520	900,007	1,278,578	886,274

(B) OPERATING LEASES

Commitments for minimum lease payments in relation to non-cancellable operating leases (excluding GST) are payable as follows:

	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Within one year	18,218	11,868	11,841	6,305
Later than one year but not later than five years	35,746	26,108	16,031	10,632
Later than five years	11,366	5,537	704	400
Commitments not recognised in the financial statements	65,330	43,513	28,576	17,337

The above commitments flow primarily from operating leases of property and machinery. These leases, with terms ranging from one to ten years, generally provide QR 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 movements in the Consumer Price Index or another fixed percentage as agreed between the parties.

(C) FINANCE LEASES COMMITMENTS

Commitments in relation to finance leases (excluding GST) are payable as follows:

	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Within one year	1	1	–	–
Later than one year but not later than five years	7,781	3	7,779	–
Later than five years	5,561	14,610	5,561	14,610
Minimum lease payments	13,343	14,614	13,340	14,610
Future finance charges	(4,920)	(6,126)	(4,920)	(6,125)
Recognised as a liability	8,423	8,489	8,420	8,485
Total lease liabilities	8,423	8,489	8,420	8,485
<i>Representing lease liabilities:</i>				
Current (Note 21)	1	1	–	–
Non-current (Note 24)	8,422	8,488	8,420	8,485
	8,423	8,489	8,420	8,485

The above commitments flow primarily from leases of rollingstock.

34 RELATED PARTY TRANSACTIONS

(A) PARENT ENTITIES

The ultimate parent entity within the QR Group is QR.

(B) SUBSIDIARIES

Interests in subsidiaries are set out in Note 36.

(C) KEY MANAGEMENT PERSONNEL

Disclosures relating to key management personnel are set out in Note 31.

(D) TRANSACTIONS WITH RELATED PARTIES

The following transactions occurred with related parties:

	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Sale of goods and services to subsidiaries	85,996	81,528	27,274	29,868
Purchases of goods and services from subsidiaries	65,745	66,650	60,787	52,885
Interest received from subsidiaries	–	398	–	398
Trade receivables – current	7,150	2,918	1,401	1,439
Other receivables – current	23,260	20,312	18,372	26,142
Related parties receivables – current	109,768	110,425	19,802	21,779
Related-party receivables – non-current	594,461	592,182	594,461	592,182
Provision for impairment – non-current	–	(10,717)	–	(10,717)
Shares in related companies	18,479	18,479	18,479	18,479
Trade payables – current	15,052	2,955	13,504	1,493
Payables to controlled entities – current	70,579	66,454	70,579	66,454
Provision for losses – current	48,405	69,284	–	–
Other liabilities – non-current	589,696	590,160	–	–
Loans from related parties – non-current	–	14,307	–	–
<i>Loans to subsidiaries</i>				
Beginning of the year	–	–	594,648	114,082
Loans advanced	–	–	(73,070)	487,218
Loan repayments received	–	–	(4,430)	(6,626)
Write off of debt	–	–	(10,717)	–
Interest charged	–	–	–	398
Interest received	–	–	–	(424)
End of year	–	–	506,431	594,648

(E) TERMS AND CONDITIONS

All other transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between QR and its subsidiaries. All loans are non-interest bearing.

Outstanding balances are unsecured and are repayable in cash.

NOTES TO THE FINANCIAL STATEMENTS – 34 RELATED PARTY TRANSACTIONS

(F) TRANSACTIONS WITH STATE OF QUEENSLAND CONTROLLED ENTITIES

The QR Group is a Queensland Government Owned Corporation, with all shares held by the shareholding Ministers on behalf of the State of Queensland.

The value of these related party transactions and balances, as reported in the Balance Sheet and Income Statement, are disclosed below:

	Note	2007 \$'000	2006 \$'000	Nature of transaction
Other assets	8, 9	120,839	81,923	Short term investment (QTC), Transport Services Contracts and accounts receivable.
Loans	21, 24	4,557,132	4,494,271	Unsecured loan facility (QTC).
Other Liabilities	20, 23, 27	371,359	134,489	Interest payable, unearned revenue, accounts payable and dividend payable.
Equity	29	367,720	86,000	Equity contributions.
Revenue	4	1,003,036	871,126	Sales, community service obligation, government concessions and interest revenue.
Interest Expense	6	302,968	282,174	QTC loan interest includes (financing cost).
Other Expenses	6	209,007	108,159	Electricity, payroll tax, audit fees, licences and permits, rates and water payments.
Dividend paid	Statement of Cash Flows	68,530	193,100	Dividend paid.

35 BUSINESS COMBINATIONS**(A) SUMMARY OF ACQUISITION**

The QR Group did not purchase any new entities during the 2006/07 financial year.

During the 2005/06 financial year, QRNational West Pty Ltd (a wholly owned subsidiary of QR) acquired the above-rail assets and liabilities of the Australian Railroad Group Pty Ltd. The purchase consideration and assets and liabilities acquired are disclosed at (b) and (c) respectively for comparative purposes.

(B) PURCHASE CONSIDERATION

	Consolidated	
	2007 \$'000	2006 \$'000
Outflow of cash to acquire subsidiary, net of cash acquired		
Cash consideration ⁽¹⁾	2,602	483,159
Less: amounts accrued at 30 June 2006	–	27,239
	2,602	455,920
Less: cash balance acquired	–	6,857
Outflow of cash	2,602	449,063

⁽¹⁾ The cash consideration represents legal and incidental expenses outlaid in relation to the Australian Railroad Group acquisition. These additional costs were incurred during the 2006/07 financial year. These additional payments increased the goodwill by \$2.6 million. Refer to Notes 15 and 17.

(C) ASSETS AND LIABILITIES ACQUIRED

	Acquiree's carrying amount 2006	Fair value 2006
	\$'000	\$'000
Assets		
Cash	5,777	6,857
Trade receivables	41,495	41,323
Inventories	11,947	11,947
Prepayments	748	779
Plant and equipment	249,801	410,720
Deferred tax asset	5,451	4,902
Other	1,719	1,719
Liabilities		
Trade payables	(39,503)	(21,863)
Current provision	(8,519)	(8,524)
Non-current provision	(2,888)	(2,888)
Deferred tax liability	(6,020)	(375)
Net assets	260,008	444,597

The acquiree's carrying amount reflects the final net asset value calculated on the date of acquisition, 1 June 2006.

The fair values published in 2006 have been revised upwards by \$4.68 million as the acquisition was still being finalised as at 30 June 2006.

The current fair values now accurately reflect the value of the business acquired.

36 SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy (Note 1(b)):

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2007	2006
			%	%
OnTrack Insurance Pty Ltd	Australia	Ordinary	100	100
Interail Australia Pty Ltd	Australia	Ordinary	100	100
National Logistics Alliance Pty Ltd (NLA)	Australia	Ordinary	100	100
Betty Rees Group Pty Ltd	Australia	Ordinary	100	100
CRT Group Pty Ltd	Australia	Ordinary	100	100
CRT Rail Operations Pty Ltd	Australia	Ordinary	100	100
Windfern Pty Ltd	Australia	Ordinary	100	100
NHK Pty Ltd	Australia	Ordinary	100	100
QRNational Holdings Pty Ltd (QRNH)	Australia	Ordinary	100	100
QRNational West Pty Ltd	Australia	Ordinary	100	100
Australian Railroad Group Employment Pty Ltd	Australia	Ordinary	100	100
Australia Western Railroad Pty Ltd	Australia	Ordinary	100	100
AWR Lease Co Pty Ltd	Australia	Ordinary	100	100
QR Surat Basin Pty Ltd	Australia	Ordinary	100	-
Heritage Train Company Pty Ltd	Australia	Ordinary	-	100

Heritage Train Company Pty Ltd ceased trading on 24 December 2003 and was deregistered on 27 May 2007.

NOTES TO THE FINANCIAL STATEMENTS

37 INTERESTS IN JOINT VENTURES

JOINT VENTURE OPERATION

QR has an interest in the CityTrans jointly controlled operation with Brisbane City Council. The purpose of the operation is to plan and develop commercially sustainable integrated public and event transport options and ticketing products on behalf of Translink and the joint venture partners. This arrangement does not restrict either party from entering into commercial transport arrangements that may not involve the other partner. Each venturer incurs its own expenses and liabilities and raises its own finance.

QR's share of the revenue generated from the operation is dependent on and agreed on an event by event basis taking into consideration the resources consumed by the event. Essentially each operator develops a "charter" price for the event which is then consolidated into a "CityTrans" quote for the event.

There are no assets jointly controlled by the operation.

JOINT VENTURE ASSETS

The Surat Basin Rail Project (SBR) is the development of an open access multi-user rail freight corridor between Toowoomba and Gladstone by among other things, developing a new railway from Wondoan to the Moura system so that mines of the Surat Basin have rail access to the Port of Gladstone. The SBR joint venture is an unincorporated joint venture, the principal activity of which is to develop the project to financial close and subject to this to implement the project. The joint venture has entered into agreement with the State of Queensland which will provide an exclusive mandate to the joint venture for the project. QR's exposure to the project is limited to its interest in the joint venture through QR Surat Basin Pty Ltd.

QR has a 20% participating interest in the joint venture through its wholly owned subsidiary QR Surat Basin Pty Ltd together with four other participants.

The QR Group's interest, as a venturer, in assets employed in this jointly controlled asset is detailed below.

The amounts are included in the consolidated financial statements under their respective asset categories:

	2007	2006
	\$'000	\$'000
QR Group's share of:		
Current assets	90	-
Non-current assets	-	-
Net assets	90	-
Revenue	1	-
Expenses	(106)	-
Net Profit (Loss) before tax	(105)	-
Tax	32	-
Net Profit (Loss) after tax	(73)	-

JOINT VENTURE ENTITIES

CHCQ

QR has a 15% interest in the Chun Wo-Henryvicy-China Railway Construction Corporation – Queensland Rail (CHCQ) joint venture. The principal activity of the joint venture is to construct the Lok Ma Chau Spur Line and Kowloon Southern Link Permanent Way for the Kowloon Canton Railway Corporation in Hong Kong.

The other parties to the joint venture are Chun Wo Construction and Engineering Company Limited (45%),

Henryvicy Construction Company Limited (20%) and China Railway Construction Corporation (20%).

CHCQ joint venture has a 31 March reporting date. The joint venture prepares audited general purpose financial statements in accordance with accounting principles generally accepted in Hong Kong.

QR charges the joint venture a consultancy fee for technical advice and receives dividend income from time to time if the joint venture makes a profit.

Name	Principal activity	Ownership interest		Carrying value of investment			
		2007	2006	Consolidated		Parent	
		%	%	2007	2006	2007	2006
				\$'000	\$'000	\$'000	\$'000
CHCQ	Construction	15	15	412	–	412	–

(a) Movement in carrying amounts

	Consolidated		Parent	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Carrying amount at 1 July	–	–	–	–
Increase / (decrease) in joint venture interest resulting from final net value calculation ^(*)	412	–	412	–
Carrying amount at 30 June	412	–	412	–

^(*) The increase in the joint venture amount of \$0.412 million in 2006/07 includes an increase of \$0.502 million relating to prior years. The net impact in 2006/07 was a decrease in the interest in the net assets of the joint venture of \$0.09 million.

(b) Fair value of listed investments in associates

CHCQ is not a listed company and therefore no disclosure is required.

(c) Summarised financial information of associates

CHCQ	2007	2006
	\$'000	\$'000
QR Group's share of:		
Current assets	1,096	920
Non-current assets	142	226
Current liabilities	(821)	(639)
Non-current liabilities	(5)	(5)
Net assets	412	502
Revenue	1,025	2,705
Expenses	(1,055)	(2,853)
Net Profit (Loss) before tax	(30)	(148)
Tax	–	26
Net Profit (Loss) after tax	(30)	(122)

The amounts disclosed in the balance sheet and income statement are based on unaudited financial report as at 31 March 2007. The exchange rate is based on the Reserve Bank of Australia rate as at balance date 31 March 2007 at A\$ / HKD6.3086

NOTES TO THE FINANCIAL STATEMENTS – 37 INTERESTS IN JOINT VENTURES

(d) Share of associates' commitments

CHCQ does not have any expenditure commitments or capital commitments.

(e) Contingent liabilities of associates

CHCQ has a deposit with the HSBC bank amounting to AUD\$634,055 to cover a letter of credit facility. The QR parent's interest in this contingent liability is AUD\$95,108. QR has an unused credit facility of AUD\$4.4 million with the HSBC Bank.

(f) Method of accounting

The QR Group accounts for its share in this entity using the equity method of accounting.

KMQR Sdn Bhd

QR has a 30% interest in the KMQR Sdn Bhd (KMQR) joint venture company to provide project management consultancy for the HSSI KMQR joint venture. KMQR is a proprietary limited company with a reporting date of 31 December.

KMQR has a 45% interest in the HSSI KMQR joint venture, which has completed a project management consultancy contract for Diversified Resources Berhad.

Name	Principal activity	Ownership interest		Carrying value of investment			
		2007	2006	Consolidated		Parent	
		%	%	2007	2006	2007	2006
				\$'000	\$'000	\$'000	\$'000
KMQR Sdn Bhd	Consulting	30	30	31	31	31	31

(a) Movement in carrying amounts

	Consolidated		Parent	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Carrying amount at 1 July	31	299	31	299
Increase / (decrease) in joint venture interest resulting from final net value calculation	–	(268)	–	(268)
Carrying amount at 30 June	31	31	31	31

(b) Fair value of listed investments in associates

KMQR Sdn Bhd is not a listed company and therefore no disclosure is required.

(c) Summarised financial information of associates

	2007	2006
	\$'000	\$'000
KMQR Sdn Bhd		
<i>QR Group's share of:</i>		
Current assets	64	50
Non-current assets	–	–
Current liabilities	(34)	(19)
Non-current liabilities	–	–
Net assets	30	31
Revenue	–	333
Expenses	(1)	(332)
Net Profit (Loss) before tax	(1)	1
Tax	–	–
Net Profit (Loss) after tax	(1)	1

The amounts disclosed in the balance sheet and income statement are based on unaudited financial report as at 31 December 2006. The exchange rate is based on the Reserve Bank of Australia rate as at balance date 31 December 2006 at A\$ / MYR 2.7846.

(d) Share of associates' commitments

KMQR Sdn Bhd does not have any expenditure commitments or capital commitments.

(e) Contingent liabilities of associates

KMQR Sdn Bhd does not have any contingent liabilities.

(f) Method of accounting

The QR Group accounts for its share in this entity using the equity method of accounting.

ARG Risk Management Ltd

QRNational West Pty Ltd has a 50% ownership interest in the ARG Risk Management Ltd joint venture which is a captive insurance company incorporated in Bermuda to assist with ARG's insurance needs. The principal activity of the company is to reduce ARG's deductibles in relation to Industrial Special Risks, Public and Products Liability and Motor coverage for claims incurred before 1 June 2006.

Babcock and Brown Infrastructure Limited is the other 50% shareholder in the joint venture.

ARG Risk Management Ltd has a 31 December reporting date.

Name	Principal activity	Ownership interest		Carrying value of investment			
		2007	2006	Consolidated		Parent	
		%	%	2007	2006	2007	2006
				\$'000	\$'000	\$'000	\$'000
ARG Risk Management Ltd	Insurance	50	50	3,162	2,652	–	–

NOTES TO THE FINANCIAL STATEMENTS – 37 INTERESTS IN JOINT VENTURES

(a) Movement in carrying amounts

	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Carrying amount at 1 July	2,652	–	–	–
Initial cost of investment	–	2,500	–	–
Increase / (decrease) in joint venture interest resulting from final net value calculation	510	152	–	–
Carrying amount at 30 June	3,162	2,652	–	–

(b) Fair value of listed investments in associates

ARG Risk Management Ltd is not a listed company and therefore no disclosure is required.

(c) Summarised financial information of associates

	2007 \$'000	2006 \$'000
ARG Risk Management Ltd		
<i>The QR Group's share of:</i>		
Current assets	7,414	7,151
Non-current assets	536	28
Current liabilities	(3,604)	(3,862)
Non-current liabilities	(1,184)	(665)
Net assets	3,162	2,652
Revenue	772	32
Expenses	(130)	–
Net Profit (Loss) before tax	642	32
Tax	(202)	–
Net Profit (Loss) after tax	440	32

(d) Share of associates' commitments

ARG Risk Management Ltd does not have any expenditure commitments or capital commitments.

(e) Contingent liabilities of associates

ARG Risk Management Ltd does not have any contingent liabilities.

(f) Method of accounting

The QR Group accounts for its share in this entity using the equity method of accounting.

38 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

TRANSITION OF QR TO COMPANY GOVERNMENT OWNED CORPORATION (GOC) STATUS

On 7 March 2007 Parliament passed the *Government Owned Corporations Amendment Act 2007 (Amendment Act)*, which was assented to on 20 March 2007 resulting in key changes to the *Government Owned Corporations Act 1993 (GOC Act)*.

Under amendments to section 24(b) of the *GOC Act*, all statutory GOCs existing at the date the *Amendment Act* was assented to are required to transition to company GOC status. On 1 July 2007, the Company Government Owned Corporation (GOC) conversion was effective,

with registration of QR Limited completed with Australian Securities and Investments Commission.

From the date of conversion, QR will be required to comply with the requirements of the accountability and financial reporting framework set out under the *Corporations Act 2001*.

While this change has not impacted on the continuing existence of QR, it has resulted in a change of company status. This change in status has not impacted on the balances and other disclosures included in this financial report.

39 RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Profit for the year	183,224	82,204	186,638	71,511
Depreciation and amortisation	437,038	414,333	400,276	404,371
Impairment expense	(20,772)	11,615	(33,145)	11,615
Impairment of Trade Receivables	770	195	811	221
Net (gain) loss on sale of fixed assets	–	–	–	–
Written off ascertain and liquid damages	–	–	–	–
Written off cash retention	–	(4)	–	(4)
Net (gain) loss on sale of non-current assets	5,027	(6,488)	4,783	(6,883)
Inventory obsolescence	4,968	2,106	4,960	2,094
Part worn materials adjustment	–	–	–	–
Capital works expense	2,925	5,974	2,925	5,974
Working capital loan On Track Insurance Pty Ltd	–	–	5,484	(7,202)
Derivative financial instrument – unrealised	13,766	–	13,766	–
Miscellaneous asset proceeds	(80)	(29)	(80)	(29)
Non-current asset stocktake adjustments	(26)	(71)	(26)	(71)
Net non-cash interest	(1,953)	(1,996)	(1,953)	(6,014)
Non-cash commissions	28	30	28	30
Non-cash fee expense	156	189	156	189
Asset devaluation expense	–	7,235	–	7,235
Promissory note	4,719	2,228	4,719	2,228
Land tax accrual adjustments	–	–	–	–
Capitalised interest	–	(4,019)	–	–
Non-cash asset transfer	–	–	(7,345)	–
Change in operating assets and liabilities:				
Decrease / (increase) in trade debtors	38,599	(15,522)	37,823	(3,578)
Decrease / (increase) in inventories	(17,111)	(29,321)	(12,384)	(16,725)
Decrease / (increase) in other operating assets	75,717	(75,366)	77,266	(66,446)
Increase / (decrease) payables	(60,897)	16,349	(54,391)	106,434
Increase / (decrease) in other liabilities	250,278	(4,768)	263,472	(1,708)
Increase / (decrease) in other provisions	17,469	106,618	15,412	(13,902)
Increase / (decrease) in employee benefits	30,036	18,016	27,375	6,873
GST (net)	(9,134)	2,156	(10,756)	4,055
Increase / (decrease) in adjustment written to retained profit	–	–	–	(219)
Net cash (outflow) / inflow from operating activities	954,747	531,664	925,814	500,049

CERTIFICATE OF QR

The foregoing financial statements have been prepared pursuant to the provisions of the *Financial Administration and Audit Act 1977* and other prescribed requirements. We certify that:

- (a) The foregoing financial statements and notes to and forming part thereof are in agreement with the accounts and records of the QR Group; and
- (b) In our opinion:
 - (i) The prescribed requirements in respect of the establishment and keeping of accounts have been complied with in all material respects.
 - (ii) The statements have been drawn up so as to present a true and fair view in accordance with prescribed accounting standards of the transactions of the QR Group for the period 1 July 2006 to 30 June 2007 and of the financial position as at 30 June 2007.
 - (iii) There are reasonable grounds to believe that the QR Group will be able to pay its debts as and when they fall due.

J B Prescott AC

Chairman
12th September 2007

S Cantwell

Chief Executive Officer (Acting)
11th September 2007

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF QR

REPORT ON THE FINANCIAL REPORT

I have audited the accompanying financial report of the QR Group, which comprises the balance sheet as at 30 June 2007 and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies other explanatory notes and certificates given by the Chairman and officer responsible for the financial administration of the consolidated entity comprising QR and the entities it controlled at the year's end or from time to time during the financial year.

QR's Responsibility for the Financial Report

QR is responsible for the preparation and fair presentation of the financial report in accordance with prescribed accounting requirements identified in the *Financial Administration and Audit Act 1977* and the *Financial Management Standard 1997* including compliance with applicable Australian Accounting Standards (including the Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud and error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 *Auditor-General of Queensland Auditing Standards*, which incorporate the *Australian Auditing Standards*. These Auditing Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit is planned and performed to obtain reasonable assurance 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 risks of material misstatement in the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers the entity's preparation and fair presentation of the financial report 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, other than in expressing an opinion on compliance with prescribed requirements. An audit also includes evaluating the appropriateness of accounting policies and the reasonableness of accounting estimates made by the board, as well as evaluating the overall presentation of the financial report and any mandatory financial reporting requirements as approved by the Treasurer for application in Queensland.

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

Independence

The *Financial Administration and Audit Act 1977* promotes the independence of the Auditor-General and QAO as 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.

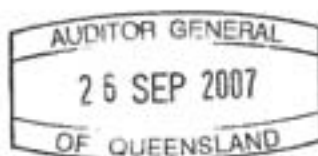
The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters which in the Auditor-General's opinion are significant.

Auditor's Opinion

In accordance with s.46G of the *Financial Administration and Audit Act 1977*

- (a) I have received all the information and explanations which I have required; and
- (b) in my opinion
 - (i) the prescribed requirements in respect of the establishment and keeping of accounts have been complied with in all material respects; and
 - (ii) the financial report has been drawn up so as to present a true and fair view, in accordance with the prescribed accounting standards of the transactions of QR and the consolidated entity for the financial year 1 July 2006 to 30 June 2007 and of the financial position as at the end of that year.

G G POOLE FCPA
Auditor-General of Queensland



Queensland Audit Office
Brisbane

GLOSSARY

Above Rail

Rollingstock, such as locomotives and wagons.

Access Undertaking

Approved by the Queensland Competition Authority to provide clear guidelines for access and operation on the QR network.

Access Revenue

Revenue generated by providing access for organisations to use QR's rail network (including divisions of QR and external operators).

Automatic Train Protection (ATP)

A computer-based backup braking system that monitors a train's operation.

ATSB

Australian Transport Safety Bureau (www.atsb.gov.au)

Below Rail

Track infrastructure, such as signalling, overheads and the track itself.

Bulk Freight

Commodities such as coal, minerals and grain. Bulk trains generally carry a single commodity.

Citytrain On-Time Running

Scheduled Citytrain services arriving within three minutes of timetable divided by total scheduled services, expressed as a percentage.

Citytrain Reliability

Total scheduled Citytrain services minus cancelled services resulting from QR-controllable causes divided by total scheduled Citytrain services, expressed as a percentage.

Customer-facing Lines of Business

The three major segments of QR's business with external customers: Freight and Logistics, Passengers, and Track Access.

Cycle Times

The time it takes to undertake rollingstock maintenance and overhaul activities.

Electronically Controlled Pneumatic (ECP) Braking System

A leading edge braking system that enables more efficient braking and improved safety.

Environmental Incident

An undesired, unplanned and uncontrolled event that, under different circumstances, could lead to environmental harm.

Environmental Management System

Processes used to administer an organisation's environment policy that covers all aspects of environmental management including structure, planning, practices, procedures and resources.

Environmental Protection Agency

A Queensland Government department responsible for environmental planning, environmental policy and economics, environmental operations, sustainable industries, and environmental and technical services.

Environmental Regulations

Conditions required by environmental legislation or regulation.

Environmental Risk

Operational risks with an environmental consequence, arising from the relationship between humans and the environment.

General Freight

Freight that does not travel in a block train and does not include intermodal and industrial products.

Greenhouse Gas Abatement

Reducing the intensity of or eliminating greenhouse gas emissions.

Integrated Ticketing

Ticketing that can be used across all modes of public transport in South East Queensland.

Lost Time Injury Frequency Rate

A measure of the number of lost time injuries per million hours worked, used by QR to monitor and report employee health and safety.

Network

Queensland's rail system, including all main railway lines, marshalling yards, bulk loading and unloading points and passenger stations.

Open Access

Access by other rail operators to QR's rail infrastructure.

Overall Track Condition Index (OTCI)

Level indicator at which QR maintains the rail network.

Passenger Journeys

The number of one-way origin-to-destination trips made by passengers, regardless of how many separate boardings are made as part of that journey, such as changing services.

Queensland Competition Authority (QCA)

An independent Queensland Government statutory authority that regulates government business activities in areas such as rail, water, gas, electricity and port services.

Rail Operator

A party (QR and non-QR) that operates rollingstock (ie trains) on a railway.

Railway Noise Management Agreement

A formal QR and Queensland Environmental Protection Agency agreement.

Ringfencing

Processes that separate the management of the rail network from the operation of train services, and protects the confidential information of rail operators and access seekers.

Rollingstock

Locomotives and wagons.

SAP

Enterprise business software used to manage a number of functions such as human resources and financials.

SEQIPRAIL

The rail component of the Queensland Government's overarching South East Queensland Infrastructure Program (SEQIP). SEQIPRAIL will deliver nearly \$7 billion of upgrades to the South East Queensland region's rail network over the next 20 years.

Shareholder Agreement Revenue

Revenue provided to QR for non-transport services provided to the Queensland Government.

Six Sigma Project Management Methodology

A quality management process.

Signals Passed at Danger (SPAD)

An incident where a train passes a red signal without authority to do so – used as a measure of risk.

Speed Restriction

Train speed limits for defined track sections.

Sustainable Development

Development that meets the needs of Australians today, while conserving ecosystems for the benefit of future generations.

Third Party Access

Access by rail operators other than QR to QR's rail infrastructure.



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For assistance, publications or information concerning QR and the customer services we provide, please visit our website at www.qr.com.au or contact:

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