

# QR. Focusing on customer expectations

TOWARDS  
CENTRAL

ection



ANNUAL REPORT 2007/08

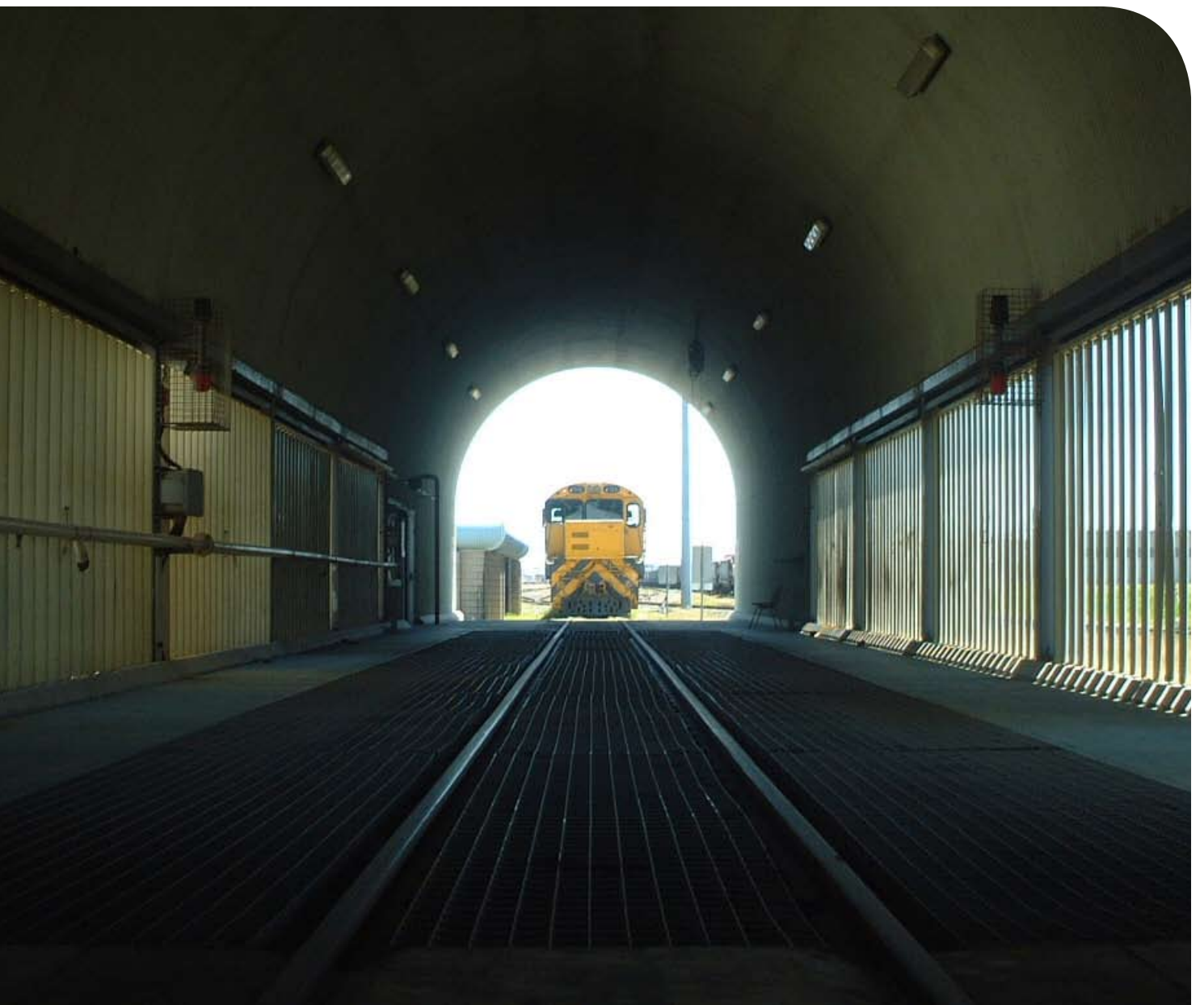
# Introduction

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

As a government owned corporation (GOC), we strive to ensure that our shareholders and customers are fully informed on the performance of QR.

While this report is prepared primarily for shareholders, it is made available to a wider audience in the interests of corporate transparency and accountability on [www.qr.com.au](http://www.qr.com.au)

If you have any suggestions for improving this report, please do not hesitate to contact us on **(07) 3235 2991**, or via email [corporate.affairs@qr.com.au](mailto:corporate.affairs@qr.com.au)



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# Business overview

WHO ARE WE,  
WHAT DO WE DO AND  
WHERE ARE WE GOING?

# This is QR

QR Limited (QR) generates more than \$3.5 billion per annum in revenue and is one of Australia's largest integrated transport providers. On any day QR operates more than 1,000 train services, moves more than 683,000 tonnes of freight and carries over 170,000 passengers to work, home, events and other destinations.

## Customers and Stakeholders

### Lines of Business

QR FREIGHT	QR PASSENGER	QR NETWORK	QR SERVICES
Coal Bulk Retail & Logistics Intermodal	Citytrain Traveltrain Tourist Train Heritage	Coal Systems Freight Systems South East Qld Interstate Services	Rollingstock & Component Services Infrastructure Projects Asset Services Engineering Services

### Corporate Support Units

Finance	Enterprise Risk Services	Corporate Affairs, Marketing and Strategy	Human Resources
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Internal Audit	Chief Executive Officer	Company Secretary
	QR Board	

### Shareholders

QR is a public company limited by shares and is a Government Owned Corporation under the *Government Owned Corporations Act 1993*. QR shareholders are the Honourable Andrew Fraser MP, Treasurer, and the Honourable John Mickel MP, Minister for Transport, Trade, Employment and Industrial Relations.

# Creating a new QR





QR's areas of focus are:

- Delivering world class safety
- Customer service excellence
- Commercial capability
- Growth in all our markets.”

JOHN PRESCOTT AC, CHAIRMAN, QR  
AND LANCE HOCKRIDGE, CEO, QR.

QR doesn't just carry people and freight, it carries the expectations, hopes and dreams of thousands of customers.

Their families rely on the QR network, their businesses run on QR connections and their companies count on QR rollingstock.

This year QR will be more focused than ever on living up to those expectations.

# Chairman's report



## QR is preparing for its next phase of growth and development after a year of rebuilding capability and repositioning the business in our markets.

An increased focus on safety performance, customer service and commercial capability has been fundamental to QR in 2007/08, as the company pursues growth opportunities and stronger financial returns.

The transport and logistics industry is undergoing major transformation, driven by strong growth and a consolidation of players in key markets. QR is mapping out its strategy to ensure it becomes a leading player in the national transport landscape.

The Board was delighted to secure the services of Lance Hockridge as CEO during the year. He brings to the company a wealth of experience in the transportation and industrial sectors both in Australia and internationally.

Since November, Lance has made major inroads in shaping the company for future growth. He is a particularly passionate champion of safety and with his leadership QR will achieve much needed improvement in this area. I'd also like to acknowledge Stephen Cantwell for his leadership during his acting capacity of Chief Executive Officer.

### Safety

The deaths of QR Services employees Gary Watkins and Jamie Adams was a tragedy for the family and friends of the men and the QR community. On behalf of the Board, I extend my condolences to the families of the two men following the terrible accident in December 2007.

There is nothing more important than the safety of our people - no-one should get hurt at work. This view is held unequivocally by myself and each and every Director. While QR's ZERO Harm journey has gained momentum over the past 12 months, there's still much to do. QR has joined forces in a four-year partnership with safety consultancy DuPont, which has a world-renowned track record in revolutionising the safety performance of the companies it has worked with. This partnership will drive significant and sustained improvements in QR's safety performance.

### Financial performance

Financial results have continued to improve in 2007/08 notwithstanding the outcome of major flooding on our freight business in the second half of the year. We showed an increase in pre-tax profit to \$281 million for 2007/08, a 7.3% increase compared to the previous year's profit of \$262 million. Return on assets was 5.7% which was in part a function of the unprecedented levels of capital spending in the company. There needs to be significant improvements to achieve satisfactory commercial returns for our shareholders.

A \$151 million dividend was paid to shareholders (from last year's profits), while this year's result led to the provision of a \$157 million dividend, to be paid in the next financial year. This dividend represents 81% of post-tax profit. Work is well advanced across the company to increase profitable revenue, make the necessary changes to under-performing businesses and reduce the cost base of the business.

### Customers

The increasingly competitive markets in which QR operates makes it even more important to listen and respond to the needs of our customers, with clear alignment of responsibilities and resources in respective businesses. QR has restructured to provide that clarity in our Freight, Network, Passenger and Services business. The new structure will assist in ensuring individual business and products are more attuned to customer needs and clearly accountable for commercial and financial performance. QR must continue to lift customer service performance to demonstrate to existing and potential customers the value we can deliver for their businesses.

### Commercial capability

There has been both leadership renewal and a major injection of commercial capability across the company during the last 12 months. QR has an outstanding senior leadership team that combines private sector capability with the experience and operational excellence of existing management. Numerous appointments across the business have considerably bolstered QR's commercial bench strength. Focused and talented leadership, combined with the right commercial disciplines and processes, are fundamental to QR's future commercial success.

### Growth - outlook

During the year, each QR business has undertaken a range of initiatives to capture growth opportunities. The unprecedented growth in our markets is well known - global demand for resources, a doubling of national general freight and continued urban passenger growth in Queensland. QR's businesses are well positioned to leverage these growth markets.

This is an exciting time for the company, but with it comes the challenge of change. The Board is satisfied we now have in place the right people to deliver this change and realise QR's potential. I look forward to reporting on a much stronger performance across QR in 2008/09 following the re-building and re-positioning work of the past 12 months.

**John Prescott AC**  
Chairman



# CEO's report



## Improving safety has been my number one priority since taking up my role in November 2007. Laying the foundation for QR to capitalise on national growth opportunities is a primary focus.

QR is experiencing growth in all our markets. From the resource boom in Queensland and Western Australia, the dramatic increase in passengers in South East Queensland (SEQ) and the forecast doubling of the general freight market, the past 12 months have been spent doing the required groundwork for our future.

As we look to the new financial year, my key priorities for QR remain clear. We need to dramatically lift safety performance, develop our commercial capability, improve customer focus and capitalise on growth opportunities for the company. This is a big challenge and the scale of the program of improvements taking place across these key areas reflects the size of the task ahead of our company. Ultimately, we are rebuilding and reshaping the company to create 'the new QR' to become Australia's leading transport and logistics company.

### Safety

Since the launch of the ZERO Harm journey in 2007, there has been an unprecedented focus on rapid safety performance improvement across QR. We have seen general improvements over the past year in key areas, yet we have a significant way to go to achieve world-class safety performance.

In December 2007, we were reminded in the most tragic way possible of this safety imperative with the deaths of Gary Watkins and Jamie Adams in a workplace accident at Mindi, Central Queensland. My deepest sympathies are with the families and colleagues of both men.

Following this accident, QR employees contributed generously to the memorial fund established to support the families of the men, with QR also contributing corporately. In keeping with my passion for significant safety performance improvement and the need to urgently bring best capability to the task, I invited DuPont to assist QR to improve its safety performance. As a world-class safety consultancy, DuPont has joined forces with QR employees in the field to identify immediate workplace risks and develop short and long term strategies to address them. DuPont has also undertaken research of QR's safety culture. Work is progressing well and we look forward to dramatic improvements in QR's safety performance over the first 12 months of the 4 year partnership.

### Restructure

In December 2007, I announced a major restructure to further assist us to build a truly national and commercial company. As a result, QR now has four specialist and market-facing businesses – Freight, Passenger, Network and Services. These businesses are supported by a corporate core of Finance, Risk, Human Resources and Marketing.

The restructure provides further impetus for improved customer and commercial focus and to drive sustained growth in each of the businesses. Clearly our businesses need to be dynamic, flexible and highly responsive to customer needs. Further to the December announcement, QR also moved to establish the Network and Passenger businesses as subsidiary companies from 1 September 2008. The QR Network subsidiary satisfies the need for above and below rail separation, while the QR Passenger subsidiary is aligned with the needs of the newly formed TransLink Transit Authority.

### Key senior management appointments

The last year has seen significant senior management appointments as part of leadership renewal of the company. These include:

- ◆ **Deborah O'Toole**, formerly of MIM Holdings and presently a Director of CSIRO, as QR Chief Financial Officer
- ◆ **Paul Scurrah** from AOT Holidays and former Director of the AOT Group as the Executive General Manager of QR Passenger
- ◆ **Lindsay Woodland** from Ergon Energy to the newly-created role of Chief Marketing Officer
- ◆ **John Stephens**, currently of Billiton Mitsubishi Alliance, as Chief Human Resources Officer (to start late 2008)
- ◆ Current QR executives **Stephen Cantwell**, **Michael Carter** and **Glen Mullins**, appointed to respective leadership roles in Freight, Network and Services
- ◆ **Marcus McAuliffe** from Pacific National appointed as Group General Manager, Coal
- ◆ A number of other senior QR Executives have been confirmed in new roles

The combination of long term rail industry expertise and fresh customer and commercial focus is unrivalled in the industry. This places the company in great shape for our next phase of development and in taking advantage of unprecedented opportunities for growth.

### Results

As outlined in the Chairman's Report, significant improvement is required in our financial performance as QR looks to deliver

# CEO's report

stronger returns for our business and shareholders, the Queensland Government.

The pre-tax profit of \$281 million for 2007/08 was a sound result but clearly we need to lift returns across the business to commercially sustainable levels and in the context of a massive investment program. Over the next five years, we expect to invest more than \$8 billion growing and improving our business.

## Freight

The freight business has undergone transformation in structure and focus in the past 12 months as it re-positions its four separate businesses in respective markets.

QR Coal has delivered an improved performance in the last financial year. However, severe flooding in Central Queensland early in 2008 significantly affected results.

We have made major progress in lifting performance in Central Queensland which came under intense scrutiny with the O'Donnell Review in 2007. For QR's part, productivity and throughput rates for customers have lifted, efficiencies have been introduced into operations and capital upgrades in track and rollingstock are progressing well.

QR Bulk continues to perform well on the back of ongoing integration activities that followed the acquisition of the ARG business by QR in 2006. A major initiative that will be completed in late 2008 is QR Bulk assuming operational management of the Townsville to Mount Isa corridor. QR Bulk is well leveraged to the high growth minerals markets in Western Australia and Queensland, and is anticipating a return to a strong grain season in 2008/09.

QR Intermodal introduced a genuine national offering for customers in 2007/08 with its new Melbourne to Perth services. A \$200 million investment in new rollingstock and terminals was announced in June 2008 as we drive major improvements in service, reliability and payloads in the future. The long term growth strategy for this business also included a \$30 million downpayment on a future inland freight hub at Moorebank, west of Sydney, in partnership with Stockland and Kaplan Funds Management.

In 2007/08, Regional Freight continued to underperform in terms of customer service and financial returns with losses in excess of \$100 million. Significant reforms are now underway as we build a sustainable national retail freight business.

## Passenger

Citytrain continues to experience unprecedented growth as Queensland grows at a rate of 1500 people a week and escalating fuel prices enhance the attraction of environmentally friendly urban rail.

This rapid growth, however, does drive significant pressure on the Citytrain network in terms of capacity, on time performance and

reliability. A massive \$1 billion per year investment in rollingstock and track is being delivered under the Queensland Government's SEQIPRAIL program through to the year 2026.

## Network

QR Network successfully delivered a \$900 million capital program during 2007/08 expanding rail capacity in the central Queensland coalfields and in South East Queensland for the Citytrain business. This included preparatory works for major coal network projects such as the Jilalan yard expansion and the Goonyella to Abbott Point connection. These projects are positioning the business for massive growth in track capacity to cater for the growing needs of global coal customers.

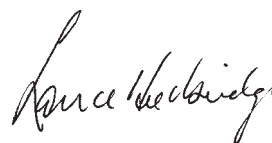
## Services

The newly created Services business, combining Rollingstock Engineering, Infrastructure Services Group and Rollingstock and Component Services will continue to deliver improved services internally. Opportunities for growth and external contracts will be a focus for the business in 2008/09, with QR Services already successfully securing a grinding contract in Western Australia for WestNet rail.

## Outlook

This is a time of unprecedented opportunity for QR and for realising the inherent value in this company. The growth opportunities are superb across all four of our businesses. Whether you are talking resources, general freight or the passenger market, QR is in the right position to seize these opportunities. We are also seeing an emerging business and political environment that presents great prospects moving forward. External factors such as climate change, environmental and road safety concerns, and energy prices favour rail from a national transport perspective. In building the new QR, we need to excel in all dimensions of our business – safety, customer service and commercial performance.

This will deliver superior service for our customers, commercial returns for shareholders and the platform for the best transport and logistics business in the nation. That's the challenge and our opportunity for the years ahead.



**Lance Hockridge**  
Chief Executive Officer

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# **Our journey to ZERO Harm**

THERE IS NOTHING MORE  
IMPORTANT THAN SAFETY

**Safety  
is our  
highest  
priority**





Being a spokesperson for QR is one thing, but my children and I are also customers. Safety is one area where we can all get involved and help QR maintain the highest standards.”

STEVE RENOUF,  
EX BRISBANE BRONCOS PLAYER.

National Rail Safety Awareness Week is an initiative of the Australasian Railway Association (ARA) during which QR supports a series of statewide educational and media events focusing on level crossing safety and the hazards of trespass, with the aim of reducing the number of incidents that occur every year.

# Employee safety

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 journey

Sometimes it's difficult to look back and think when a journey began. I started with QR in 1967 when practically all work was manual. We thought accidents and injuries were part of the job.

Times have changed. We are no longer a Railway Department but a highly mechanised national business, working with some of the best technology in the industry. We have also made significant improvements in safety and to achieve ZERO Harm we need to build a mindset that all accidents are preventable and that one injury is one too many.

It's often the simple things that make a big difference. I have made a personal commitment to make safety a fundamental value not just at work but at home as well. I'm more aware of my environment and the hazards we could be exposed to. This is heightened even further when I have my 20-month-old grandson around. At the end of the day, safety is about protecting ourselves, our workmates and the people we love.

That's why we need to speak up if something's not right.

I'm passionate about the role of leadership in safety and how important it is we demonstrate the level of safety performance we want. I appreciate that the eyes of our workers are on us to see if we're giving lip service or making a genuine commitment followed up by action.

In my new role as General Manager, Safety and Risk for QR Services I am acutely aware that it's people and culture more than systems that will deliver ZERO Harm. It's important that we build on the great strengths of QR and get on board this journey.



**Stuart O'Hare**

General Manager, Safety and Risk





*Key stakeholders from across QR attend a ZERO Harm workshop.*

**ZERO Harm is a journey towards:**

**Zero incidents**

**Zero injuries**

**Zero work-related illnesses**

**Zero environmental incidents**

**Performance**

**QR's Lost Time Frequency Rate** (number of injuries where time is lost per million hours worked) continues to show an improvement. It has reduced by approximately 22% from 2006/07 to 11.0 lost time injuries per million hours worked in 2007/08. However, QR recognises it still has significant work to do to improve safety performance and reach its targets.

Initiatives such as ZERO Harm and the engagement of DuPont will allow QR to continue to drive down the LTFR and improve the safety of its workers.

**Injury Downtime** – QR's Injury Downtime Rate (hours lost as a percentage of total hours worked) has also shown a steady improvement. Rehabilitation initiatives have assisted in achieving reductions to date.

**Major Initiatives**

**ZERO Harm Strategy**

Since early 2007, QR has adopted a ZERO Harm Strategy and is making significant progress on implementation.

Key stakeholders from across QR have participated to formulate the ZERO Harm philosophy and implementation strategies, including the internal launch during Rail Safety Week (22–26 July 2007).

QR's safety principles are:

- Safety is the core QR value
- All injuries can be prevented
- Management is accountable for creating and maintaining a safe workplace
- We are **ALL** responsible for preventing injuries
- Working safely is a condition of employment.

The key areas of focus for the QR safety program are:

- Contain safety risks – identifying and immediately correcting high risk activities.
- Diagnose safety issues – assessing our current safety culture, including our systems and processes, to define what needs to be corrected to achieve ZERO Harm.
- Transform safety performance – developing the systems and processes that will achieve ZERO injuries, reinforcing ZERO Harm as fundamental in the way all QR people work and think as part of a positive safety culture.

# Operational safety

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

## Performance

QR Queensland Operations

### Derailments

Derailments can be caused by multiple factors including track condition, rollingstock capability and operating practices. Adverse weather in early 2008 affected tracks in north Queensland and QR applied considerable effort to minimise the effect of derailments. Increased tonnages and throughput has also been a challenge and QR implemented several initiatives to limit derailment rates.

These included:

- Cooperative working party consisting of representatives from QR, coalmines, and port authorities to improve loading and unloading operations. This is intended to reduce derailments caused by problems in these steps of the transport cycle
- Increased maintenance and monitoring for particular wagon classes
- Increased wayside monitoring
- Greater vigilance by QR personnel
- Improved loading and unloading practices for coal and container wagons.

In accordance with the ZERO Harm approach, QR has set itself a long term diminishing target to reduce derailment rates. While the operating environment has been difficult, QR has managed to keep derailment rates generally in line with the target. The total rate for QR passenger and freight services was 0.81 derailments per million train kilometres.

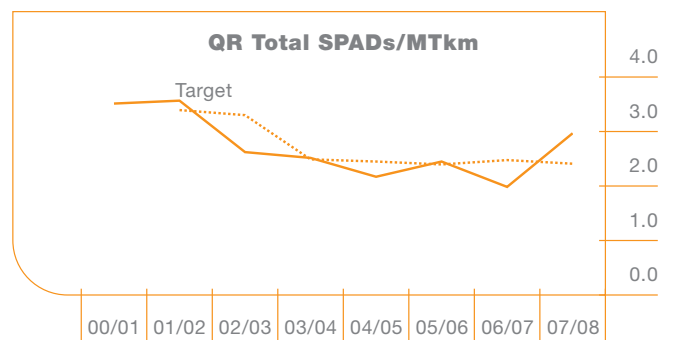
### Signals Passed At Danger

Signals Passed At Danger (SPADs) is one of the early indicators used to monitor operational safety. While there are multiple layers of control to prevent a SPAD becoming a collision, QR applies considerable resources to both limit the number of SPADs and to safely recover from this situation.

The total number of SPADs increased in 07/08 and this has become the focus of an extensive program. Some of the actions QR has taken are:

- Improved skills for train drivers including recruitment of additional tutor drivers, more time for tutors to give advanced skills training to drivers, and closer monitoring by drivers in charge and tutor drivers
- Changes to the signalling system to give better signal sequencing
- Greater visual clarity for identified signals such as backing boards, stencilling, upgrades to LED, and fitting of sunshades
- Trimming of vegetation along the corridor to give better sighting distance
- Holding forums for all operators to identify locations of concern, techniques to minimise SPADs, and other related issues.

The total rate for QR passenger and freight services was 2.97 SPADs per million train kilometres.





# Passenger and public safety

## Passenger safety

For the past 14 years we have maintained a passenger safety record at world best practice. In order to maintain this reassuring record, we are committed to constantly improving our already outstanding levels of safety.

This includes:

- New suburban and inter-urban passenger rollingstock has been delivered with greater passenger safety features such as improved door operating mechanisms and visual indicators.

## Public safety

QR continually strives to achieve zero injuries across our network, for employees and the public. The interface with the public whether legally at level crossings or through illegal crossing of the corridor is a difficult area to address but one

where QR is actively working to minimise risk to the public. Tragically two level crossing accidents in 07/08 resulted in fatalities, which is similar to the recent annual average.

As part of its ongoing commitment QR has:

- Launched a community education project through Brisbane and regional television, newspapers, and website. This was supported by a schools program featuring the “Spike” character
- Upgraded crossing protection as part of an ongoing program at prioritised crossings.
- Worked with local government authorities and Main Roads Department to maintain and improve level crossing visibility, warnings, and manage traffic issues.

QR remains committed to delivering best practice with safety training, community education programs and improving the safety of our network.



Community Education Officer David Millward and Spike on a school education visit.

# Business resilience

QR has continued to create a secure, resilient environment for our customers, staff and operations. This has been achieved through our continued improvement in protective security, emergency management and business continuity management initiatives.

Nationally, QR plays an integral role within the rail industry through the Trusted Information Sharing Network hosted by the Australian Attorney-General's Department. Participation in national, industry wide exercises provides an opportunity to develop our business resilience capability and to protect our customers, our people and assets throughout Australia while maintaining a high level of customer service.

Regionally in Queensland, QR has engaged local emergency services and facilitated workshops to allow regional specific issues to be discussed. This has enhanced relationships between QR and local agencies contributing to effective response to regional incidents.

QR has taken a lead in Queensland Transport's precinct security initiative improving the protective security and emergency management robustness at Roma Street, Brisbane Central and Brunswick Street station precincts.

Participation in Queensland State Government exercises provides an opportunity to demonstrate and improve our emergency management, crisis management and business continuity plans in conjunction with agencies such as Queensland Transport, Queensland Police Service, Queensland Fire Rescue Service, Queensland Ambulance Service, TransLink and Queensland Health.

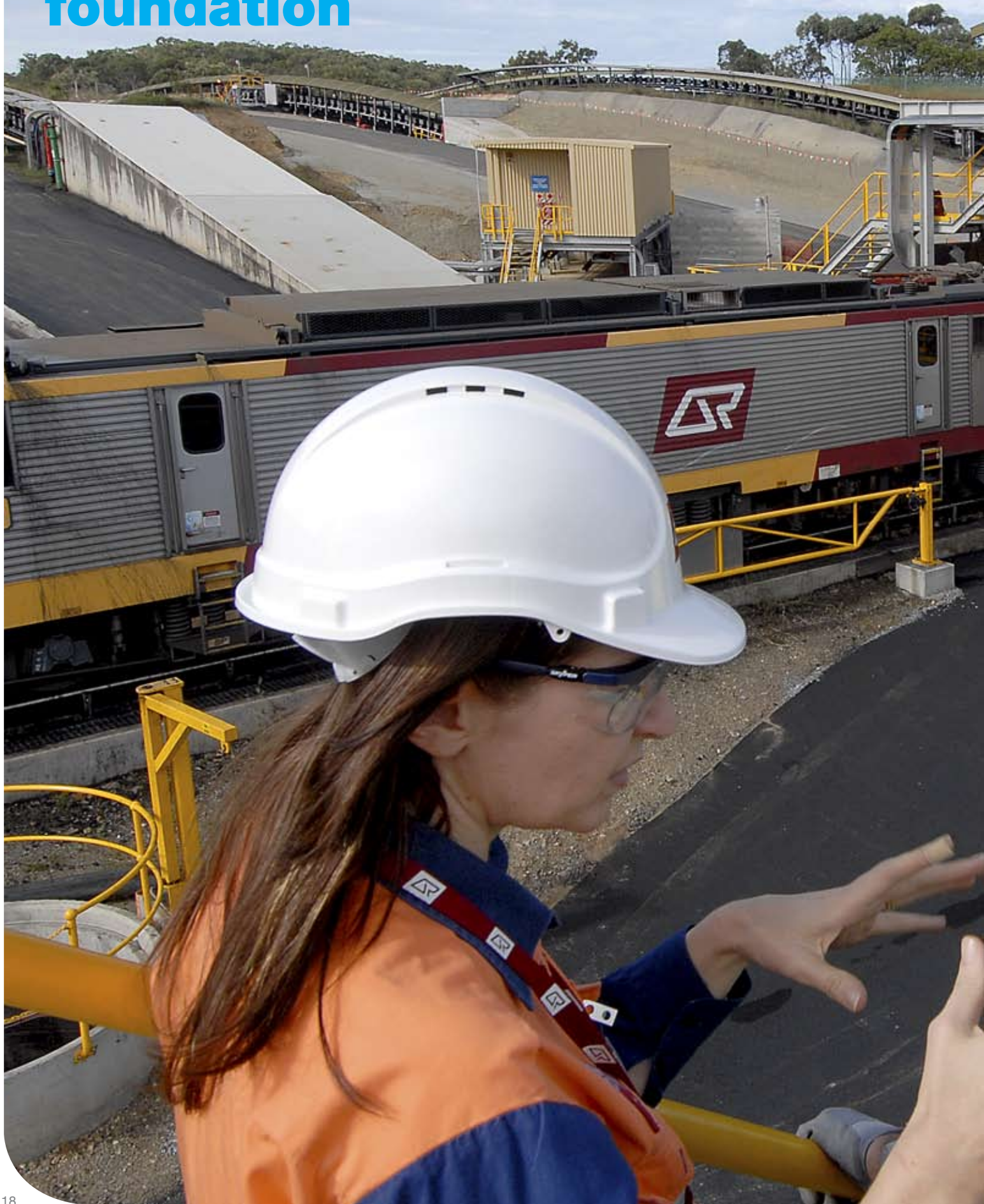
As QR has expanded operations interstate, we are continuing to use the experience gained through current Business Resilience activities to develop similar initiatives nationally. QR believes that as a resilient organisation we are in a position to provide an attractive competitive advantage for new and existing customer opportunities.

# 3

## **The year in review**

WHAT'S THE INSIDE TRACK  
ON QR'S OPERATIONS?

# Giving industry a renewed foundation





QR is committed to maximise through-put in the coal chain systems. We are working closely with our partners in these systems to deliver for our customers.”

CATHY KELLY,  
COMMUNICATIONS ADVISOR, COAL NORTH.

The resources boom, globalisation, burgeoning growth in export demand and growing environmental awareness present unprecedented growth opportunities for QR. To support this growth, QR is investing more than \$8 billion over the next five years. Capturing a bigger slice of this forecast growth is the name of the game for QR as we continue with our national expansion.

# QR Freight

QR Freight offers seamless rail based transport and logistics solutions to customers needing to move coal, bulk (minerals and agricultural products), containerised and general freight. Our services also include warehousing, shipping and distribution. Freight customers throughout Australia are looking for new facilities and growth opportunities for rail-based transport and warehousing. QR Freight is responding by building strong wholesale and retail freight businesses. Over the past year, QR Freight has continued to strengthen its business portfolio in coal, bulk, intermodal and retail freight solutions and is making bold moves to increase its national capability.

**QRNational Coal** is the largest coal haulier in Australia.

In 2007/08 we hauled record tonnage, delivering 185 million tonnes of coal for our customers. Despite improved performance, the O'Donnell review highlighted a number of areas of our business which needed to be addressed and QRNational Coal took immediate steps to further improve its service to customers.

## HIGHLIGHTS

QRNational Coal hauled more than 185 million tonnes of coal in 2007/08, **a record** despite the widespread flooding throughout the Bowen Basin in early 2008.

QRNational Coal took **delivery** of 460 new high capacity wagons.

We continue to significantly **invest** in our rollingstock fleet. In 2007 we invested in 45 3800-class AC traction electric locomotives from Siemens in Germany. Two of these **arrived** in 2007/08, with a further 18 to arrive by the end of 2008 and 25 by the end of 2009. These locomotives are the most powerful and technically advanced narrow gauge heavy locomotives in the world. We have also invested in upgrading 63 3700-class AC traction electric locomotives, 10 of which were delivered in 2007/08.

In **response** to mine flooding, flexible arrangements were made for Blackwater, Newlands and Goonyella customers to transport extra coal from less affected mines. Mine staff were also transported to and from mines cut off by flood waters.



## INITIATIVES

**ZERO Harm** was introduced, aimed at reducing the number of safety risks and injuries in this fast growing business.

As at 30 June 2008, Coal has \$2.3b of approved **Capital Projects**, this includes \$654m to be invested in an **additional** 40 locomotives and 1190 wagons. Expenditure on approved capital projects as at 30 June 2008 was \$1.1b, with a further \$1.2b to be spent over 5 years.

The **redevelopment** of the Jilalan Yard operation and maintenance facility began. This \$500 million project will increase QRNational Coal's capacity in the Goonyella system to 130 million tonnes a year from 2009.

QRNational Coal has committed to a massive \$2.2 billion investment program to **increase its capacity** to meet the unprecedented demands of the coal boom. In 2007/08 it spent more than \$367 million on rollingstock and supportive infrastructure, with a further \$609 million spend planned in 2008/09.

## Partnering for coal supply chain solutions

The global resources boom is placing enormous demands on Australia's coal supply chains including the resource rich Central Queensland coal system.

Working with customers, ports and other supply chain participants, QRNational Coal has responded to these challenges and recommendations for improvement by implementing a range of solutions for customers that are designed to increase system capacity.

Approached by Macarthur Coal with a request to increase its haulage allocation, but without the capacity in the Goonyella system or rollingstock to enable it, the client and service provider turned to more innovative ideas.

After negotiating access with QR Network to use the North Coast freight route between Mackay and Pring, QRNational Coal embarked on an innovative plan to rail

coal to Abbot Point Coal Terminal, which had available port capacity to accommodate Macarthur Coal's extra tonnes.

Rollingstock was acquired by taking advantage of the flexibility provided by QR's extensive fleet and, as a result, QRNational Coal has been able to rail to Abbot Point Coal Terminal via the North Coast Line on an ad hoc basis since March 2005.

In 2007/08, however, QRNational Coal and Macarthur Coal entered an agreement which saw QRNational Coal haul 1.1 million tonnes to Abbot Point for Macarthur Coal during this period. This was crucial extra tonnages for Macarthur Coal which exports the highly valuable pulverised coal injection coal from its Coppabella and Moorvale mines.

In 2008/09 QRNational Coal expects to increase railings to 1.5 million tonnes via the North Coast Line.

QRNational Coal's willingness and flexibility to meet Macarthur Coal's needs has strengthened the relationship between the two companies.



*One of the many QR coal trains in operation around Queensland and New South Wales.*

# QR Freight

**QR's national bulk freight** business transports more than 58 million tonnes of bulk product each year. This mainly consists of commodities such as grain, alumina, bauxite, iron ore, copper, lead, zinc, nickel ore, mineral sands, chemicals and woodchips. QR's bulk freight business is the national market leader.

By 2010/11, mining production in Queensland's North West Minerals Province is expected to peak at 6.3 million tonnes per annum (MTPA) with a value of \$5.2 billion per year. This presents a major growth opportunity for our bulk business.

## Australian Railroad Group (ARG)

Established as a national business in 2006 with the amalgamation of the Australian Railroad Group and QRNational Bulk, the service operates under the brand of 'ARG – a QR Company'. ARG is focused on the mining and agricultural market sectors and is well positioned for bulk haulage in the booming resource states of Queensland and Western Australia.

### HIGHLIGHTS

**New agreements** were signed which will see ARG **operating** in excess of 14 million tonnes per annum in 2008/09 in the booming iron ore industry in Western Australia. This means an increase of around 50 percent in this commodity and it will continue to be a major focus of QR's bulk freight business development.

A significant **reinvestment** of \$48 million was made in eight new standard gauge locomotives to underpin QR's **growth** in the iron ore and general mining sector.

A one-year extension was granted for grain arrangements in Western Australia.

**Negotiations** are well advanced for a long term arrangement.



### INITIATIVES

**Opportunities to grow** the business in Queensland's resource rich North West Minerals Province as well as Western Australia are being pursued.

The **need to deliver** integrated and seamless supply chain solutions from mine/farm to ship is being examined.



**QR Retail Freight** is building on our regional freight expertise in Queensland to expand and grow our national retail business offering retail customers an integrated logistics service. In 2007/08, approximately 3.4 million tonnes of general freight and agricultural products were hauled to 70 locations throughout Queensland.

QR has been working with the livestock industry to improve the long term sustainability of the business so it meets the needs of producers and processors as well as making it more commercially viable for QR and its customers. QR is committed to transporting livestock and is the only transport and logistics company in Australia still moving livestock by rail.

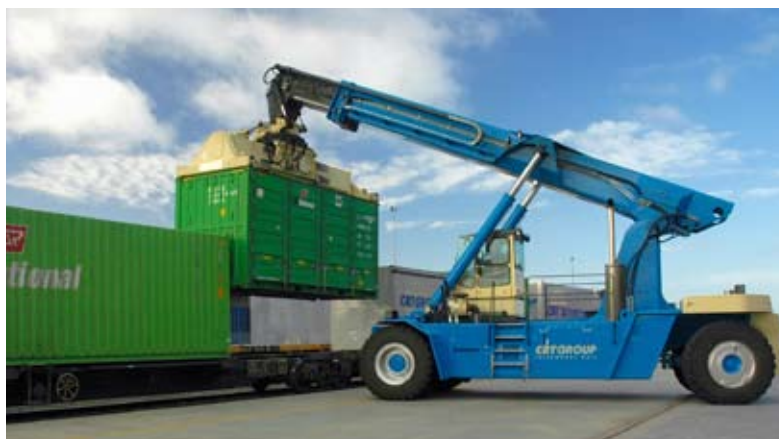
## Customer focus

Over the past year, the focus has been to continuously improve our customer service to Queensland through intensive customer and competitor analysis and providing a holistic service portfolio to the market. From this base, the retail business will be grown into a portfolio of brands serving a range of market sectors including retail chains, fast moving consumer goods and whitegoods, and specialist products such as chemicals. Specialist transport and logistics solutions for national polymer, food and industrial customers are provided by the wholly owned CRT Group.

### HIGHLIGHTS

A next day pick up freight service was **introduced**, providing **greater** capacity and same day transport for the majority of our customers.

**Stronger** relationships were developed with our customers through more effective communication and a greater understanding of their transport needs.



Streamlined customer **solutions** were introduced including account management services.

### INITIATIVES

Work is continuing with customers and industry to **streamline** regional freight services.

Performance levels will be **assessed** through an ongoing program **monitoring** customer service expectations.

# QR Freight

**QRNational Intermodal** offers a national network for freight transport from Cairns to Perth for containerised freight, together with value added customer solutions such as rail based warehousing and specialised customer solutions. With access to more than 50 terminals and depots, we link businesses together right across Australia.

## Building partnerships for a new QR

Through acquisitions and strategic partnerships, including an alliance with P&O, the intermodal business is well positioned for long term growth.

Our long term strategy recognises the need for new inland terminal capacity and new rail connections to truly capitalise on the expected growth of the \$10 billion a year national general freight market. This is expected to double over the next 20 years.

### HIGHLIGHTS

In 2007/08, QRNational Intermodal **hauled** 639,000 tonnes of retail freight and 1.9 million tonnes of wholesale freight across its national network.

A new east west general freight service between Melbourne and Perth was launched in November 2007, significantly **expanding** QR's freight footprint.

The Acacia Ridge interstate terminal in Queensland was developed into a multi user facility **supporting** QRNational Intermodal's move to position itself as a viable interstate freight transport alternative.



Niche freight forwarder, Golden Bros, was **acquired** to provide dangerous goods transport services to national customers.

### INITIATIVES

National expansion continues with an investment of \$30 million in the new Moorebank Intermodal facility in western Sydney. QR is **partnering** with property group Stockland and logistics experts Kaplan Funds Management to create the new \$300 million facility, formerly the Department of Defence National Storage and Distribution Centre.

QRNational Intermodal is continuing to forge **strategic** alliances and relationships for terminal developments at Yennora in Sydney, as well as terminal operations in North Dynon Melbourne.



## Expanding QR's National footprint

Recognising the huge potential to gain a slice of the more than \$10 billion a year national general freight market, QR has been moving to secure a position as one of Australia's major freight operators since its first interstate acquisition in 2002.

The purchase of the Northern Rivers Railroad has been followed by a series of strategic freight acquisitions, the most recent of which was the purchase of freight forwarding company, Golden Bros, in August 2007 to provide specialty chemicals services to a national customer base.

QR's national general freight strategy reached a critical milestone in November 2007 with the launch of QR's first east-west general freight service between Melbourne and

Perth. QR is currently running two services per week on this corridor, with plans to add additional services as volumes increase.

This bold move has been backed up with the announcement in May this year of a \$187 million investment in rollingstock to better service customers.

Further investments include \$11 million for the upgrade of freight terminals in Adelaide and Perth, as well as expanding the Acacia Ridge interstate terminal to a multi-user facility. QR owns or has access to terminals in each state capital, and will soon be ordering new state-of-the-art rollingstock for its national services.

All of the building blocks are now in place for QR to continue forging its place in the national freight market.

# QR Network

**QR Network** is a rail infrastructure business operating a 10,000 kilometre rail network that forms an essential transport link across the state of Queensland. Our people develop and deliver a rail network that serves the coal, bulk freight, intermodal and passenger markets.

## HIGHLIGHTS

QR Network **delivered** a record \$900 million of new infrastructure investment, a 300% increase in two years. All 60 major **investment projects** are being delivered on schedule and on budget.

The Coal Rail Master Plan for infrastructure investment was **successfully** agreed with our supply chain partners, resulting in their **commitment** to a \$3.8 billion investment program. Master planning scenarios under consideration could **more than double** the coal task by 2012, with 34.5 kilometres of new track built in 2007/08.

QR Network **generated** record earnings before interest and taxes of \$438 million.

New Zonal Control procedures enabled continuous operations on high-volume coal systems while new track was **commissioned** and integrated with the network.



Construction **commenced** on Brisbane's Darra to Springfield Transport Corridor. The \$800 million road and rail project is **managed** under QR Network's \$7 billion SEQIPRAIL program and delivered by our Horizon Alliance.



Installation of an **innovative** wire mesh rock barrier at a landslip site on the Kuranda Scenic Railway **saved millions** of dollars and months of downtime on this important tourist route area.

QR Network **delivered** with our customers a record 89 billion gross tonne kilometres (GTKs) across the network.

## OUTLOOK

**Growth opportunities** exist in all of our markets where customer requirements for infrastructure capacity remain strong as they strive to meet demand opportunities for their products.

**Forging successful partnerships** with customers and stakeholders across our supply chains is central to achieving our **strategy** of attracting the largest possible share of the land transport market to rail.

## QR completes rail loop to support expansion at Dalrymple Bay Coal Terminal (DBCT)

The third rail loop at the DBCT is integral to the expansion plans of the Port. The project includes the construction of a third unloader adjacent to the two existing unloaders.

The successful completion of phase one provides the capability to run trains on the new infrastructure and is due to excellent planning and good working relationships with our coal supply chain partners.

The DBCT Third Rail Loop Project is part of the industry endorsed 2006 Coal Rail Infrastructure Master Plan, investing approximately \$550 million in rail infrastructure and enhancements within the Goonyella System to increase coal export capacity to a potential 130 million tonnes per annum (mtpa).

## Salisbury to Kuraby rail upgrade officially opened

QR Network's award winning SEQIPRAIL program completed the \$256 million Salisbury to Kuraby rail upgrade in 2008. This is one of 28 major projects in the \$7 billion program SEQIPRAIL is undertaking to meet growing demand on the metropolitan passenger network.

Paving the way for increased train services from Brisbane to the Gold Coast, the project included a third 9.5 kilometre track from Salisbury to Kuraby and upgrades to seven stations along the rail corridor, including Coopers Plains, Sunnybank and Runcorn.

The Salisbury to Kuraby third track project was one of the biggest infrastructure projects to be completed in South East Queensland in the past decade. Improvements have been made to ensure the stations meet Australian Disability Standards with the addition of lifts and easily accessible car parks.

SEQIPRAIL earned the prestigious Premier's Award for Leadership Excellence for its innovative delivery of the infrastructure program.



*Aerial view of the Third Rail Loop at the Dalrymple Bay Coal Terminal.*

**Delivering  
new forms  
of service**





Our students use Brunswick Street station every day and I think it's fantastic that QR has involved local artists and schools to help out with the new design."

WENDY FLOREY, DEPUTY PRINCIPAL – STUDENTS ALL HALLOWS' SCHOOL, BRISBANE CITY.

The multi-million dollar Brunswick Street Station refurbishment is well underway. Construction began on 14 July 2007 and the platforms, lifts and escalators are all due online by late 2008. The partnership between QR Citytrain and local community groups is a key element in creating a unique look for one of Brisbane's most visited locations.

# QR Passenger

**QR Passenger** provides the people of Queensland with access to passenger rail services across a range of urban, inter-urban, long distance and tourist operations. Over the past year the number of commuters has increased significantly and Citytrain has been asked to manage with extra demands on a daily basis. For QR, the challenge is to continue to develop the network while still maintaining a healthy relationship with its customers.

## HIGHLIGHTS

Citytrain patronage **increased** by 6.6% on the previous year.

The regular intake of trainee drivers continued during the course of the year. The new drivers will be **introduced** to the network to support future **increase in services** as new trains and emerging infrastructure improvements are realised.

Passenger Services maintained a team of 110 Transit Officers to uphold a commitment to operational **excellence** with a **focus on customer service**, security and revenue protection.

Our On-Time Running (OTR) **result** averaged 91.2% for the year.

A total of 16 new Citytrain three-carriage trains were **introduced** across the inter-urban rail corridors of the Sunshine Coast and the Gold Coast with the remaining eight of this first order expected to be **delivered by 2010**. A further \$295 million of funding was secured for another 20 three-car sets also to be delivered by 2010.



Substantial **progress** was made on the SEQIPRAIL program, the rail component of the Queensland Government's unprecedented \$82 billion infrastructure investment plan. The SEQIPRAIL program, with a gazetted expenditure of \$7 billion, continues to be recognised as a performing portfolio within the overall South East Queensland Infrastructure Plan.

Capital program expenditure during the year ensured **improved** access to stations and trains continued on schedule.

## INITIATIVES

As part of our continuing **commitment** to passenger safety, the closed circuit television (CCTV) network upgrade, from analogue to digital, at 23 stations was completed. Almost \$10 million in State Government funding was utilised for this project, which included the introduction of **CCTV at additional stations** and sealed car parks.





*QR passengers attend a community engagement session.*

## Meet the managers community engagement

In demonstrating its commitment to a customer-focused philosophy, QR Passenger held a series of 'Meet the Managers' sessions during 2007/08, representing a first of its kind for South East Queensland passengers.

The events provided opportunities for passengers across the Citytrain network to provide comments and feedback directly to the managers responsible for running the business.

QR Passenger collated almost 1,000 responses as a result of the exercise and continues to implement the suggestions received.

A summary of the suggestions and outcomes from passengers were available on the Citytrain website during the consultation.

In recognising the positive response from customers, QR will continue to schedule these events in future to encourage this valuable contribution to its business.

## New stadium – new passengers

March 2008 saw the opening of Stadium Queensland's new 27,000 seat stadium Skilled Park located just a 400 metre walk from Robina Station. With no area available for private car parking, Skilled Park was developed with the intention that 80% of patrons would use public transport; QR Citytrain constantly carries over 31% of spectators. To accommodate this number of passengers a tailored customer service model for Skilled Stadium events continually attracts high customer recognition.

With the future extension to Varsity Lakes in 2009, the number of customers using the rail solution will only increase.

## go card rollout

In partnership with the TransLink Transit Authority, Passenger Services tangibly contributed to the rollout of the go *card* network in accordance with its commitment to customer service. During the course of the year, QR decommissioned its Ticket Vending Machines (TVM) which were replaced with add value vending machines (AVVM) during the year. With 213 AVVMs now in service across the network the uptake of go *cards* continues to increase week on week.

# QR Services

**QR Services**, formed in December 2007, brings together Rollingstock Engineering, Rollingstock and Component Services (RACS) and Infrastructure Services.

It builds on the capability and experience of a 5000 strong workforce to offer customers complete asset solutions incorporating design, procurement, construction, maintenance and management. QR Services provides the business with a tremendous competitive advantage, providing the in-house expertise to deliver on all asset needs in tight labour and resource conditions.

## HIGHLIGHTS

Infrastructure crews demonstrated enormous **commitment** and skill in responding to the worst flooding in more than 20 years. It was a **huge recovery operation** with very few parts of the state and the QR network left untouched by the emergency.

Crews traversed around the flood affected regions carrying out inspections and repairs ranging from clearing debris to **rebuilding** parts of bridges and restoring entire sections of track including supporting electrical equipment. Extraordinary efforts on the ground helped to **resume services** safely and as quickly as possible.

QR **won** a rail grinding contract in WA worth \$20 million. The team provided an innovative and **competitive solution** to meet WestNet's needs now and into the future.

QR Services leveraged off professional **planning**, project management, rail systems construction and safety expertise to successfully deliver over \$250 million of infrastructure expansions.

**Growth** in the traffic task has led to the construction of a third track between Salisbury and Kuraby and a second between Mitchelton and Keperra. Callemondah rail yards, Coppabella third spur and Blackwater System duplications have also seen **new improvements**.

Rollingstock Engineering managed contracts that **delivered** 10 electric locomotives, 15 diesel electric locomotives and 122 coal wagons, adding over 10,000 tonnes of coal capacity and nearly 100,000 horse power to haul them.



**Production** for the year across RACS was almost 9% ahead of budget and 6% greater than last year. In some areas such as Locomotive Lift & Repairs, production was **over 500%** in excess of budget.

RACS has **embraced** the ZERO Harm philosophy through numerous safety initiatives and ongoing training. This has resulted in a significant reduction in the LTFRs of 54% in the past year.

## INITIATIVES

**A major focus** for QR Services will be continuing to improve safety performance and culture. This includes taking all necessary action to ensure a tragic accident such as the double fatality at Mindi never happens again.

QR Services will also continue to enhance QR's **competitive** advantage by strategically **partnering** with its customers and delivering responsive, innovative, fit for purpose and cost efficient asset solutions.

More rollingstock and infrastructure will be required to **meet demand** for rail capacity across the nation which translates into continued growth for QR Services.

Work is underway to ensure this **new business** delivers the best value to QR and the rail industry.



QR's new rail grinding service in operation in Western Australia.

## Rail grinding services for WestNet Rail

QR Services won a \$20 million tender in the commercial environment to deliver narrow and standard gauge rail grinding services for WestNet Rail from July 2008 to October 2013.

Building on more than 20 years of rail grinding expertise and in-depth knowledge of the West Australian business, QR Services provided an innovative and integrated solution that was competitive and best suited to WestNet's needs now and into the future.

A dedicated team of highly skilled and experienced QR Services staff are based in Perth to deliver the service.

QR partnered with Loram Maintenance of Way Inc to custom build the largest and most capable dual and narrow gauge grinding machines in Australia to service the WestNet contract as well as commitments in Queensland.

Rail grinding has proven highly effective in extending the life of rail, wheels and turnouts which means lower lifecycle costs, safer and smoother performance.

## ARG Loco overhaul – RACS Redbank

In November 2007, RACS Redbank delivered a completely overhauled and repaired 1502 Class Diesel Electric Locomotive to ARG.

Their main objective throughout the 11-month project was to deliver a quality locomotive on budget, allowing their customer to maximise the use of their asset by returning it into circulation at the earliest possible time.

In achieving this goal, the following processes were implemented to fulfil the scope of the job and provide exceptional business performance:

- An in-depth understanding of ARG's business was developed by building a solid customer relationship to ensure work requirements were understood.
- Continual open and trusted correspondence between the organisations.

At the end of the contract term, RACS Redbank met the delivery schedules and as a result delivered in full and on time at the agreed initial price. When compared with a similar project completed by an external competitor, which was late, over budget and of sub-standard quality, RACS' effort displayed exceptional business performance.

# Research and Innovation

QR has continued to invest in research and development to improve service to our customers and the safety of our employees, customers and the public. This year, an additional commitment has been made to build our capability in innovation.

Innovation in business and operational practices and building the right strategic alliances will be a focus for the coming year. This focus will facilitate the integration of our traditional engineering research and development work to meet customer needs and provide commercial outcomes.

This year saw the commencement of this new focus with an agreement to commercialise research work from the Rail Cooperative Research Centres (CRC). This joint project brings together QRNational, Rail Innovation Australia, Faiveley Transport and Central Queensland University to develop an innovative electronically controlled pneumatic (ECP) braking system. The project also attracted a grant from the

State Government's Innovative Projects Fund in recognition of the potential benefits to Queensland. Named, OZ-ECP, this project aims to deliver a cost effective braking system which enhances safety and will also provide the opportunity to schedule more trains on areas of heavy traffic due to the reduced stopping distances required by this superior system.

QR has maintained involvement with two Cooperative Research Centres, the CRC for Rail Innovation and the CRC for Integrated Engineering Asset Management. This involvement will ensure that QR can leverage high quality academic research into environmental, social, operational, economic and technical issues likely to affect our future.

# 4

## **Building a sustainable future**

WHAT IS BEING DONE NOW TO SAFEGUARD TOMORROW?

**Part of every  
community  
every day**





The whole community was grateful for the support of QR.

Having access to trains, including the Spirit of the Outback, to cross the flooded Nogoia River made a huge difference.”

PETER MAGUIRE, MAYOR OF EMERALD.

When the town of Emerald was hit by disastrous flooding in January 2008, leaving all main roads impassable, QR was one of the first to respond. Working closely with emergency services and local volunteers, QR staff, rollingstock and equipment helped shuttle people, food, clothes and other vital supplies in and out of the area.

# Our communities

With 143 years of operational experience, QR has played a major role in the establishment of many towns and communities across Queensland. QR supports the communities through a range of partnership programs including school and community education, local sponsorships and events, safety initiatives, staff involvement and community engagement.

### Community education

The Community Education Unit presented the RailSmart message to more than 150,000 Queenslanders.

This represents 438 schools, community groups and events attended for RailSmart.

Highlights in the first half of 2008:

- RESPECT program run in high schools with Crime Stoppers and Qld Police
- Rail Safety Orientation Days at Roma St for refugee and new immigrant students
- Out of the Box Festival at South Brisbane
- First regional visits to Biloela and Moura districts for rail safety presentations.

### Community-based activities

QR's positive pARTnerships program brings together creative minds to beautify train stations across the Citytrain network.

QR is committed to the wellbeing of its passengers and these art projects are a way of involving local schools and

organisations in creating better and safer public spaces and building local community pride.

### Sponsorship and community support

QR is an integral part of many communities, and the sponsorship and community support activities we undertake help reinforce our relationship with the people we serve, on both a national and local stage. On a personal level too, many of our employees also volunteer for causes and donate to a selection of charities.

In 2007/08, QR remained as the principal sponsor of Queensland Rugby Union and the QR Reds rugby team. QR supports Queensland rugby at schoolboy, junior club and community rugby level. We believe that the game of rugby teaches young people team skills, values and outcomes. We believe that an understanding of the power of teamwork is what makes QR, our state and our country great.

In tandem with our proud sponsorship of the QR Reds and our grassroots support of community rugby, QR shows the powerful commonalities between playing in a team sport and a national rail team of more than 15,000 Australians.



1.



2.

1. One of QR's safety ambassadors, Spike, spreads the RailSmart message to local schools.

2. QR transports teenagers for an educational holiday in South East Queensland.

3. Participants in QR's positive pARTnership program.



3.



## Our team

In regional communities, QR uses its extensive network to illustrate the many advantages of teamwork in turning today's young rugby players into confident team players and leaders of the future.

### **Bush to the Beach**

QR transported over 100 teenagers from drought ravaged outback Queensland for an educational holiday in South East Queensland as part of the 'Bush to the Beach' program.

### **2008 QR Junior State Championships**

QR transported more than 600 junior rugby players from across Queensland for the state's premier junior rugby championships in Brisbane.

### **QR brings the country to the city**

QR used its sponsorship of Queensland Rugby Union and the QR Reds rugby team to help children from regional areas fulfil their dreams. Throughout the 2008 Super 14 rugby season, QR ran a competition in conjunction with Fox Sports. The player chosen as man of the match nominated a local Queensland rugby club to be the beneficiary of \$2,000 worth of safety equipment donated by QR.

The initiative helped promote the importance of rail safety, which is QR's number one priority. It also contributed to communities by helping to develop players of the future.

QR is a major Australian employer, with over 15,000 employees in approximately 300 job categories spread across more than 500 locations nationwide.

Our company continues to provide a more stable workforce than the national average and is progressively building capabilities at the individual and team levels to fulfil customer needs.

### **Building capability**

QR conducted selection processes to confirm occupants in the eight positions comprising the CEO's executive team.



*Regional winners of the Silver Spike Track Laying Competition at the Southern regional competition at Dalby. Left to right Jeff Clarke, Leon Wade, Chris Doty, Wayne Pitt, Des Giblett, Dean Haig, John Howlett, Glen Mullins EGM QR Services.*

# Our team

The resultant blend of long serving QR employees and external appointees will give the balance of experience and knowledge that QR needs as it continues to grow and expand its operations.

QR also continued to address the challenge of attracting and retaining talent in a variety of ways. This included systematic workforce planning, targeted recruitment campaigns, stretching development programs, health and wellbeing initiatives and reviewing remuneration and incentive provisions.

### Recruitment and selection

In addition to the executive recruitment processes, QR initiated a major traincrew selection process. This was designed to ensure continuity of driver supply to service QR's growing freight haulage and passenger movement demands. As of the end of June 2008 about 280 trainee drivers, including 70 women, had commenced their training.

### Talent and performance management

QR introduced performance standards tailored to each major organisational level. These performance standards provide a clear link to individuals' accountabilities and development plans.

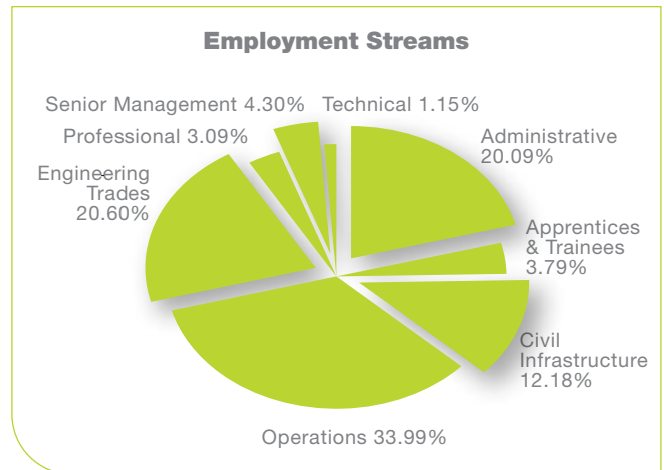
### Workplace relations

In June 2008, QR signed a memorandum of understanding (MOU) with unions to establish the principles for the enterprise bargaining process upon which the organisation will be embarking in the first quarter of 2008/09. The MOU contains in-principle agreement on a framework for business-specific workplace agreements, with late 2008 the target date for the commencement of all new agreements to replace the current agreements as they expire.

During June 2008, QR also hosted a two-day open forum between union delegates, managers and supervisors. The forum was a demonstration of QR's commitment to working together with unions to achieve what is best for our people and our company.

### Diversity strategy

QR supports building workplace diversity within the context of open and merit-based selection processes. In this regard the company is an Equal Employment Opportunity (EEO) employer. Moreover, QR encourages contributions from employees.



QR regards diversity to be closely aligned with innovation, in that different/lateral viewpoints often lead to fresh solutions to business problems.

### Awards and recognition programs

QR publicly acknowledges exceptional employee performance through a number of awards and recognition programs. The honours profiled below are awarded on a competitive basis, with the aim of recognising outstanding contributions to QR's business.

During the year the first recipient of the Bronwyn Morris Award for Women in Leadership undertook the 'Harvard Business School Women's Leadership Forum' in Boston, Massachusetts, the '2008 Training Within Industry Summit' in Orlando, Florida, and the 'Collaboration and Performance in Social Systems Retreat' in Essex, Massachusetts. The recipient, in turn, has been sharing her experiences and knowledge with other employees across QR.

In June 2008, the second Bronwyn Morris Award recipient was announced. This person will similarly partake in a range of tailored development opportunities over the coming year.

A fitter and turner apprentice from Rockhampton took out both the Mechanical Apprentice Award and the overall QR Apprentice of the Year Award at an awards ceremony held in December 2007.

In August 2007, the company conferred its 2007 QR Achiever Awards. These awards acknowledge outstanding individual and team performances. The broad areas covered by the awards were in the categories of National Leader, Shareholder Value, Service Excellence, Government Preferred, and Sustainability.

# Our environment

At QR, we strive to minimise the impact of our activities on the environment, including minimising the use of the valuable resources of energy and water. We are constantly looking for ways to improve our environmental performance and we are committed to ensuring that rail remains the most environmentally sound method of large-scale land transportation.

## Environmental incidents

A total of 95 environmental incidents occurred in 2007/08.

Two of these were:

- In December 2007, vandalism resulted in the loss of 147,000 litres of molasses from wagons in Maryborough. QR and the local council worked together to prevent 60,000 litres of molasses which had entered the local storm water system from entering the Mary River. QR subsequently remediated the site.
- In February 2008, 11 coal train wagons derailed at Binbee resulting in a coal spill of approximately 700 tonnes of coal. The coal is presently stockpiled on-site for recovery.

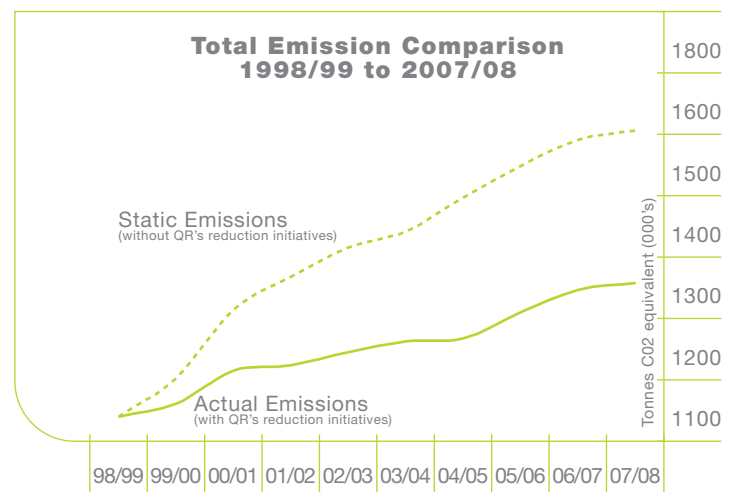
### Greenhouse gas emissions

QR has been monitoring its greenhouse gas emissions since becoming a signatory with the Greenhouse Challenge in 2000. During this period, QR has made a cumulative saving of 1.9 million<sup>1</sup> tonnes CO<sub>2</sub>-e, which is the equivalent of taking 400,000 cars off the road for a year.

### Energy reduction initiatives to date

QR has adopted many initiatives with greenhouse gas abatement benefits, which fall into the following categories:

- Improved asset utilisation.
- Infrastructure development and upgrading.
- Rollingstock innovation and upgrading.
- Enhanced efficiency of train operations.



Comparison of actual emissions compared to static emissions in Queensland.

While a reduction in the rate of greenhouse gas emissions can be attributable, in part, to increased patronage of existing services and better utilisation of surplus asset capacity, the significant gains observed would not have been achieved were it not for the implementation of a range of innovative actions and technologies, including:

- The introduction of more efficient locomotives and wagons (higher gross to tare ratio) for coal and general freight traffic.

<sup>1</sup> The cumulative savings are calculated by totalling the static emissions from 1998/99 to 2007/08. Static emissions are the amount of greenhouse gas QR Ltd would have emitted had it still been operating at 1998/99 energy efficiency levels. The static emissions are calculated using the grams of greenhouse gas emitted per net tonne kilometre from QR's baseline year (1998/99) multiplied by the current year's net tonne kilometres. The passenger train static emissions are calculated using passenger kilometres.

# Our environment

- Increased general freight containerisation.
- New and more energy-efficient rollingstock on the Brisbane Citytrain network.
- Upgraded track permitting both more efficient rollingstock and operations.
- Optimised train scheduling and electronic control systems to reduce transit times and delays.
- Driver training in the dynamics and smooth running of trains to maximise fuel efficiency and minimise maintenance costs.

## Waste management

In 2007/08 QR generated 13,421 tonnes of waste and recycled 19% (2,485 tonnes), a 10% improvement in recycling from the previous year (Queensland only).

## Major Initiatives

### Coal dust

QR has spent more than 12 months working with the coal industry and the community to monitor and evaluate coal emissions in Central Queensland.

QR submitted an Environmental Evaluation followed by a Transitional Environmental Program (TEP) to the Queensland Environmental Protection Agency (EPA). The program aims to address the impact of coal dust and outlines mitigation strategies to manage coal dust emissions from trains.

Many of the mitigation options identified integrate across the supply chain. As a result, a number of mine owners have agreed to spray a veneer onto loaded coal wagons.

This will be complemented by wagon washing facilities to be installed at coal ports to reduce the emissions from empty wagons on the return trip to the mines. QR will also be reducing the gaps between the release doors of coal wagons and improving loading and profiling practices as part of its long-term approach.

### Code of Practice for Railway Noise Management

Noise management is a high priority for QR. As a result we have adopted a multifaceted approach to the management of noise, which includes the implementation of the recently updated Noise Code of Practice for Railway Noise

Management and the construction of a further 5.6km of noise barriers in the 2007/08 period. A contract has been awarded for an additional 3km of noise barriers between South Bank and Salisbury on the Beenleigh line.

### Energy conservation

QR's Regional Freight business completed an assessment under the requirements of the Energy Efficiency Opportunities (EEO) Act in June 2008.

The outcome of the project was to prioritise a list of opportunities that would reduce Regional Freight's energy usage, greenhouse gas emissions, operational costs, and improve production efficiency.

Detailed investigations are now underway for each identified opportunity and business cases are being developed for implementation of feasible opportunities.

### Water conservation

Over 40 rainwater tanks, ranging in sizes from 3,000 litres to 24,000 litres, have been installed at various locations across SEQ. The water is being used for a variety of activities including landscaping irrigation, general cleaning and washing of locomotives.

To comply with Level 6 water restrictions in SEQ, all Citytrain stations across SEQ have been retrofitted with water saving devices such as dual flush toilets and flow restricted tapware.

The following initiatives have been introduced across the Redbank site to successfully deliver water reductions:

- A recycled water tank has been fitted to a trailer in order to transport recycled water around the site for a range of purposes including:
  - Garden watering across the site
  - Floor cleaning in shops
  - Fuel tank flushing to clean large fuel tanks prior to removal and repair
  - Leak testing for coaches
- Introduction of desert cubes in all urinals resulting in significant water reductions
- Fitting of water pressure reduction valves to some buildings
- Installation and/or planned installation of 13 x 22,500 litre water tanks across the site.

**Sustainable stations**

The Indooroopilly Station upgrade, due for completion in late 2008, is the first step in integrating sustainable designs into passenger stations. It will have 5 KW solar panels installed on the station office roof that will feed power back into the grid and water tanks will collect rainwater to use at the station's toilets.

The new Varsity Lakes Station, due for completion in 2009, includes sustainability features in its design. These features include using recycled building materials and solar power for some of the hot water and electricity. The plan includes an open design that uses natural lighting and ventilation. Water tanks with the capacity to hold over 50,000 litres will be used for bathroom and landscape irrigation needs.

**Significant habitat & species conservation**

In association with Brisbane City Council, BlueScope Steel, Oxley Creek Catchment Association and other local businesses, QR has become a gold level sponsor of the local CreekWATCH program.

The CreekWATCH group has a program to rehabilitate Stable Creek Swamp in the industrial area of Acacia Ridge. The CreekWATCH group intends to invest money in the site rehabilitation at the confluence of the waterway. The program includes bank stabilisation, weed control and tree planting along the creek bed to rejuvenate the polluted and degraded creek bed and banks.

The project is the first of its kind on such a scale in Brisbane and has the potential to lead industry restoration programs of the future. The project won the Healthy Waterways Community Award for 2008.



*Artist's impression of the new Varsity Lakes Station on the Gold Coast.*

# Our environment

## Environment Compliance Summary 2007/08

The table below reflects the main environmental legislation for QR and compliance for 2007/08.

Activity	Legislation	Compliance Performance
<b>New Development</b>	<p>Qld Environmental Protection Act 1994                      Qld State Development and Public Works Organisation Act 1971                      Qld Vegetation Management Act 1999                      Qld Nature Conservation Act 1992                      Qld Water Act                      Qld Integrated Planning Act 1997                      Comm. Environmental Protection and Biodiversity Conservation Act 2000</p>	<p>QR diligently assesses and pre-plans compliance with its regulatory requirements and its general environmental duty and works closely with regulators. A small number of soil erosion issues resulted due to storms but were rectified to regulator satisfaction.</p>
<b>Facility Operation</b>	<p>Facilities across Australia work to applicable state and commonwealth environmental laws, such as:</p> <ul style="list-style-type: none"> <li>• Qld Environmental Protection Act 1994</li> <li>• Vic Environmental Protection Act 1970</li> <li>• WA Environmental Protection Act 1986</li> <li>• SA Environment Protection Act 1993</li> <li>• NSW Protection of the Environment Operations Act 1997</li> <li>• Comm. Ozone Protection and Synthetic Greenhouse Gas Management Act 1989</li> </ul>	<p>Minor non-compliance with approval conditions for water discharge quality occurred in a number of centres in Qld. One site is operating under an Environmental Management Program under the Qld Environmental Protection Act 1994 in working towards compliance.</p>
<b>Transport Operations</b>	<p>Rail and road operations are mostly subject to the general environmental requirements of commonwealth and state legislation.</p>	<ul style="list-style-type: none"> <li>• In NSW, QR is required to comply with the rail manager's environmental licence (Railcorp and ARTC).</li> <li>• QR in Qld operates under its own Code of Railway Noise Management which was reviewed and upgraded by QR in 07/08 and the new version approved by the state's Minister for Sustainability, Climate Change and Innovation.</li> <li>• In 2007/08 the Qld Environmental Protection Agency directed QR to conduct an environmental evaluation of coal dust from its coal traffic operations in central Queensland. QR completed the evaluation according to EPA requirements and is now submitting a Transitional Environmental Program for the mitigation of dust nuisance from some of the traffic.</li> </ul>
<b>Energy &amp; Greenhouse Legislation</b>	<ul style="list-style-type: none"> <li>• Energy Efficiency Opportunities 2006</li> <li>• National Greenhouse &amp; Energy Reporting Act 2007</li> </ul>	<p>QR is compliant with this commonwealth legislation and continues to work with regulators to ensure best methodology for ongoing compliance.</p> <p>QR has been closely monitoring the progress and potential impacts of the Commonwealth's assessment and development of an emissions trading scheme in preparation of future operation under the final scheme.</p>

5

# Leadership

WHO'S GUIDING QR  
TOWARDS ITS GOALS?

# Board of Directors



## John B Prescott AC **Chairman**

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



## Dawson Petie **Director**

Dawson is Chair 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. Dawson 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.



## Peter Holmes à Court **Director**

Peter is the Chairman of White Bull Holdings, a private investment company, a director of South Sydney Football Club and a member of the Lord Mayor's City of Sydney Business Forum. In 1993 Peter formed Back Row Productions, operating in New York, London and Sydney. Back Row produced over 20 live shows in 30 countries and 300 cities world wide. Live acts included the Australian show Tap Dogs, the UK's Eddie Izzard and the US's Jerry Seinfeld. Peter was formerly Chief Executive Officer of the Australian Agricultural Company.

## Paul Bell **Director**

Paul Bell joined the Board in 1999 and was appointed Deputy Chairman in 2000. Paul resigned from the Board on 16 May 2008 following his election as Councillor and Deputy Mayor of the Central Highlands Regional Council. Paul served as Chairman of the Passenger Services Strategy Committee and was a member of the Audit and Risk Management Committee.





### Robert Holloway **Director**

Rob is Chairman of Resolute Information Technology and is also Chairman of a private importing and retailing company. 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. He was also a civil and structural engineer with the Brisbane City Council and is a former member of the Library Board of Queensland.

### John West **Director**

John is 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. He is Chairman of the Chartered Institute of Transport and Logistics Association (Australian Section). He was formerly General Manager Australia for the Transport Management division of Mayne Nickless Group and is a past president of the Brisbane branch of the Volunteer Marine Rescue Organisation, based at Shorncliffe.



### Warren McLachlan **Director**

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. A former Mayor of Monto Shire, he has served as a Councillor on Calliope Shire Council. He is a former director of the Central Queensland Ports Authority and was a foundation member, State Chairman and National Farmers' Federation representative of the Cattlemen's Union of Australia and an inaugural member of the Gladstone Area Water Board.

### Ms Susan Rix **Director**

Susan is a Chartered Accountant with more than 25 years' experience and is a partner at BDO Kendalls. She is a Director, Treasurer and former Chairman of the Cerebral Palsy League of Queensland, a Queensland Council Member of the Australian Institute of Company Directors, a Director of QUT Enterprise Holdings Pty Ltd and a Member – Audit and Risk Committee, Department of Main Roads. Susan is a former director of Port of Brisbane Corporation. She also served as a director of the Queensland Rural Adjustment Authority.

### Lisa Hunt **Director**

Lisa Hunt served as a director from 1 July 2006 to 24 October 2007. She resigned from the QR Limited Board following her appointment as Group General Manager, Australia, Transurban Limited.

# Senior Executive



## Lance Hockridge

### Chief Executive Officer

Lance Hockridge joined QR Limited as CEO in 2007. He has more than 30 years experience in transportation and heavy industrial sectors in Australia and the US. Beginning at BHP his roles included Human Resources and Industrial Relations, General Manager of BHP Transport, head of BHP's Long Products business and President Industrial Markets responsible for Port Kembla's steelmaking operation and New Zealand Steel. In March 2005, Lance was appointed President of BlueScope Steel's North American operations.



## Stephen Cantwell

### Group Executive General Manager, QR Freight

Stephen's QR executive management positions have spanned operations, business development, corporate strategy & planning and infrastructure areas. In January this year, he was appointed head of QR Freight, a challenging role focused on spearheading QR's national freight ambitions across a wide portfolio. 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 CRC for Integrated Engineering Asset Management (CIEAM).



## Mike Carter

### Executive General Manager, QR Network

Michael has extensive management experience in QR's freight, passenger and heavy haul rail businesses. Responsible for the commercial performance of QR's 10,000-kilometre network, Michael is directing the largest infrastructure development program in QR Network's history, valued at more than \$10 billion. In addition to his work for QR, Michael was a consultant to the London Underground during its restructure, advising on access issues for private operators and European rail infrastructure standards.



Deborah O'Toole

**Chief Financial Officer**

Deborah O'Toole was appointed QR's Chief Financial Officer in 2007. She worked as CFO at MIM Holdings and Queensland Cotton, as well as being director of companies such as Norfolk Group Ltd, CSIRO, Raheny Consulting Pty Ltd. She has also been a member of the Boards of Workers' Compensation of Queensland, Queensland Country Health Society. Deborah received a law degree from the University of Queensland and was admitted as a Solicitor of the Supreme Court of Queensland in 1981.



Lindsay Woodland

**Chief Marketing Officer**

Lindsay has over 20 years experience in marketing, sales and customer service gained with several blue chip organisations including Ergon Energy, AGL, Telstra MobileNet and Yamaha (music and consumer electronics products). Lindsay's priorities in his role include building QR's marketing, communications, business development and sales capability, driving improvements in government and stakeholder relations management and leading the development of the overarching business strategy for the organisation.



Glen Mullins

**Executive General Manager, QR Services**

Glen has built up a great depth of rail industry knowledge and experience over his 32 year career with QR. A substantial body of this experience has been in the planning, construction, maintenance and management of all aspects of rail infrastructure to support high performing rail operations including heavy haul, main line freight and high speed passenger and commuter services. He sees improving safety culture and performance and sharpening customer and commercial focus as key to QR Service's long term success.



Paul Scurrah

**Executive General Manager, QR Passenger**

Paul was appointed to this role in May 2008. Paul brings to QR a wealth of experience and has held senior roles with Ansett, Tourism Queensland, Flight Centre, AOT Holidays, AustraliaWide Airlines and the Roamfree Group. In 1996, Paul was awarded the Presidents Club Award for the top performing sales individual in the Asia/Pacific Region of American Express. Paul's efforts were further recognised when he was awarded the 2003 Australian Institute of Management's "Young Manager of the Year" award. As QR looks for significant growth, Paul is committed to leading QR Passenger to become a customer focused entity.

# Senior Executive



**Andrew Haynes**

**Company Secretary**

Andrew Haynes joined QR in March 2006. He was admitted as an Attorney of the High Court of South Africa in 1994 and worked in the areas of personal injury litigation and international taxation before migrating to Australia in 1997. Andrew has held senior legal, company secretarial and compliance roles in ASX100 companies and overseas listed multinational companies. He has experience in both the private and public sectors in Australia and was previously Director Corporate Governance of the Metropolitan Fire & Emergency Services Board in Victoria. Andrew's responsibilities include delivery of the company's secretarial function and providing support to the QR Board and Senior Executive of QR.

**David Drew**

**Corporate Counsel**

David joined QR in 1991 as Manager, Legal Services. He was admitted as a solicitor of the Supreme Court of Queensland in 1983 and prior to joining QR had worked as a commercial lawyer in both the public and private sector. David was appointed to the role of Company Secretary in addition to his role as QR's senior legal advisor in May 2003. In February 2006, the role of Company Secretary & Corporate Counsel was split and David returned to the position of Corporate Counsel. His responsibilities include the development and management of QR's insurance program.



**Graeme Allinson**

**Chief Risk Officer**

Graeme was appointed QR Chief Risk Officer in 2007 and has functional responsibility for Enterprise Risk Services. His career has focused on infrastructure, energy and resources. He worked for the Shell Group of Companies 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 wide range of strategic and operational business issues.

**Robin Franklin**

**Acting Chief Human Resources Officer**

Robin has over 20 years of international experience in workplace relations and human resource management in Australia, North America and Argentina. Within Australia, he has performed senior Industrial Relations roles in Evans Deakin Industries Limited, BP Australia, MIM Holdings Limited, Thiess Contractors Pty Ltd and as Special Counsel, Workplace Relations in Corrs Chambers Westgarth. Robin was brought into QR to help guide QR's industrial relations processes, particularly in the lead-up to 2008 enterprise bargaining negotiations.

# Corporate Governance

## Corporate Governance Statement

This Statement reflects QR's corporate governance practices in the 2007/08 financial year. QR is a Government Owned Corporation (GOC) under the *Government Owned Corporations Act 1993* ('the GOC Act'). 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 upon their corporate governance arrangements.

## Summary – QR performance against Corporate Governance Guidelines for Government Owned Corporations

Principle	How QR conforms
<b>1. Foundations for management and oversight</b>	<ul style="list-style-type: none"> <li>The roles and responsibilities of the Board and Board Committees are defined in Charters for each body. These roles and responsibilities are reviewed by the Board annually.</li> <li>Newly appointed directors are taken through a formal induction process.</li> <li>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.</li> <li>Management's responsibilities are defined and documented in formal position descriptions and performance plans.</li> <li>Delegations from Board to the CEO and from the CEO to management are documented and reviewed annually.</li> </ul>
<b>2. Structure the Board to add value</b>	<ul style="list-style-type: none"> <li>The Board directors are appointed by the Governor in Council.</li> <li>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.</li> <li>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.</li> <li>Details of Directors' experience and expertise are disclosed in the Annual Report, as is information on attendance at Board and Committee meetings.</li> </ul>
<b>3. Promote ethical and responsible decision making</b>	<ul style="list-style-type: none"> <li>QR has a Code of Conduct that applies to directors and employees.</li> <li>QR has a Trading in Securities Policy.</li> </ul>
<b>4. Safeguard integrity in financial reporting</b>	<ul style="list-style-type: none"> <li>The Chief Executive Officer and Chief Financial 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.</li> <li>The Board Audit &amp; Risk Management Committee reviews the integrity of QR's financial reporting systems. The Board Audit &amp; Risk Management Committee is governed by its own Charter which is reviewed annually.</li> <li>QR has a detailed internal audit plan that is approved by the Audit &amp; Risk Management Committee and managed under the auspices of the Chief Internal Auditor who provides regular reports to the Audit &amp; Risk Management Committee.</li> <li>The external audit function is performed by the Queensland Audit Office.</li> </ul>
<b>5. Make timely and balanced disclosure</b>	<ul style="list-style-type: none"> <li>QR submits detailed quarterly reports to its shareholding Ministers on its 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.</li> </ul>
<b>6. Respect the rights of shareholders</b>	<ul style="list-style-type: none"> <li>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.</li> <li>Regular scheduled meetings are held between the Chairman/Chief Executive Officer and the shareholding Ministers, including meetings to advise of outcomes of Board meetings.</li> <li>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 <i>Office of Government Owned Corporations Investment Guidelines</i>.</li> </ul>

# Corporate Governance

Principle	How QR conforms
<b>7. Recognise and manage risk</b>	<ul style="list-style-type: none"> <li>The Board has approved a Risk Management Policy.</li> <li>The Board Audit &amp; Risk Management Committee oversees the process for identification and management of risk in QR.</li> <li>QR has a Risk Register with risk profiles populated at the various layers of the organisation.</li> <li>QR has adopted an enterprise wide approach to Risk Management.</li> <li>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.</li> </ul>
<b>8. Encourage enhanced performance</b>	<ul style="list-style-type: none"> <li>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.</li> <li>QR directors are encouraged to further their knowledge through participation in forums such as the Australian Institute of Company Directors. In addition to peer review, interaction and networking with other directors and industry leaders, QR directors participate in QR leadership forums and actively engage with QR employees and visit QR operations to gain an understanding of operational and employee requirements, challenges and issues.</li> </ul>
<b>9. Remunerate fairly and responsibly</b>	<ul style="list-style-type: none"> <li>The Board has established a Remuneration &amp; Succession Committee with its own Charter. The Remuneration &amp; 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.</li> <li>Director remuneration is set by the Governor in Council.</li> <li>Senior Executive remuneration is disclosed in the Annual Report in accordance with legislation, accounting standards and government policy.</li> </ul>
<b>10. Recognise the legitimate interests of stakeholders</b>	<ul style="list-style-type: none"> <li>QR has a Code of Conduct to guide directors and employees on compliance with QR's ethical, legal and statutory obligations.</li> <li>QR has a comprehensive stakeholder management and reporting framework.</li> </ul>

## Board of Directors

The Board composition during 2007/08, together with details of individual Directors' backgrounds, is set out on page 46.

## Board Charter

The Board has adopted a Charter, which clearly defines the role and functions of the Board.

## Structure of the Board

The size and composition of the Board is determined by the Governor in Council.

For details of skills, experience and expertise of individual Board directors, please refer to page 46.

## Independence of Directors

All Directors are independent non-executive Directors. Directors do not hold shares in QR. 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.

### **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 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 a comprehensive Director handbook is provided to all Directors.

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 utilised to assist in this process.

### **Board Committees**

In order 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 2007/08:

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

The membership of Board Committees is made up of a minimum of three (3) and a maximum of five (5) 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 the role, responsibilities, composition, structure and membership requirements of each Committee.

An annual evaluation of Committee performance is undertaken by the Board as part of the Board's overall performance review.

### **Audit & Risk Management Committee**

The role of the Audit & 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 to monitor the effectiveness of this system.
- Review and monitor the operation of QR's compliance program.

*The Committee is chaired by Susan Rix.*

### **Remuneration & Succession Committee**

The role of the Remuneration & 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 Committee is chaired by Robert Holloway.*

### **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 the Freight Line of Business.

*The Committee is chaired by Dawson Petie.*

### **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 its Passenger Line of Business.

*The Committee is chaired by John Prescott AC.*

# Corporate Governance

## Chief Executive Officer

The Chief Executive Officer (CEO) 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 CEO 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:

- 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 Statement of Corporate Intent is focused on the financial year ahead. A copy of the SCI is tabled in the Queensland Parliament annually and is a public document.
- Quarterly Reports to Shareholding Ministers detailing QR's financial and operational performance each quarter.
- Annual Report, a publicly available document tabled in the Queensland Parliament each year by the Minister for Transport, Trade, Employment and Industrial Relations.
- 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.

## Stakeholders

QR has developed a strategy on stakeholder relationship development which addresses, amongst other things, the key issue of communication between QR and its stakeholders.

## 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 in accordance with QR's 'Organisational Values'. To this end, QR has recently updated its Code of Conduct, which is applicable 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 33 on page 56 of the Financial Report.

## QR Remuneration

**FIXED PAY** Fixed remuneration for the CEO and Senior Executives is reviewed at 1 July each year and adjusted in accordance with the Government's guidelines, as contained in the *Governance Arrangements for Government Owned Corporations Governance Arrangements for Chief and Senior Executives*.

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.

The Total Fixed Remuneration of the CEO, Senior Executives and all other contract employees is inclusive of benefits and fringe benefits tax that are salary sacrificed. The CEO, Senior Executives and other contract officers must contribute from their Fixed Remuneration to superannuation in accordance with QR Policy.

**PERFORMANCE PAY** The CEO, Senior Executive and other contract officers may receive a performance payment dependant on the achievement of specific performance outcomes. Achievement of Corporate and Business Group Key Performance Indicators are measured as on-target, above-target or stretch target. The amount that will be funded as a bonus pool will be dependant on the level at which the performance objectives have been achieved.

The funded amount will be distributed to the CEO, Senior Executives and other Contract Employees based on assessment of how they have performed in relation to the performance 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 the QR Values and Behaviours.



# Summary of 2007/08 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 QR's strategic direction, key objectives and priority initiatives for 2007/08, and represents the performance agreement between the Board of QR and our Shareholding Ministers, the Minister for Transport and the Treasurer. It is consistent with QR's five year Corporate Plan.

The strategic direction for QR is to focus on safety, customer service, profitable business operations and to implement strategies that drive growth.

## 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, which forms part of the SCI, 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 attraction, retention 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 2007/08 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 2007/08 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 on 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 included in the 2007/08 SCI:

- Profit before tax.
- Value add.
- Earnings before interest and tax.
- Return on assets.
- Operating ratio.
- Return on capital.

Examples of non-financial indicators included in the 2007/08 SCI:

- Freight tonnages.
- Customer perceptions.
- Lost time frequency rate.
- Injury downtime rate.
- Signals passed at danger per million train kilometres.
- Derailments.

## Modifications to SCI

Section 131(1)(d) of the GOC Act 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 2007/08.

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## **Operational and financial performance**

# Financial summary

## Summary Of Traffic Task

<b>QR Group Freight <sup>(a)</sup></b>	<b>Tonnes (000's)</b>	<b>Tonnes (000's)</b>
Bulk Coal	185,783	177,731
Freight and Mineral	58,705	60,584
<b>Total Freight</b>	<b>244,488</b>	<b>238,315</b>
<b>QR Group Passengers</b>	<b>Trips (000's)</b>	<b>Trips (000's)</b>
Citytrain <sup>(b) (c)</sup>	61,735	57,913
Traveltrain	926	863
<b>Total Passenger Journeys</b>	<b>62,661</b>	<b>58,776</b>

(a) Freight tonnes include ARG's operations since the acquisition by QR in June 2006.

(b) Due to the introduction of integrated ticketing the Citytrain passenger journeys for 2005/06 and 2006/07 have been conservatively estimated.

(c) Passenger journeys calculated using Passenger Load Survey data that showed a 6.6% increase on the am/pm Passenger Load Survey outcomes of 2006/07.

## Resource Statistics – QR Group

<b>Rail Network Owned (Leased) In Use</b>	<b>30 June 2008</b>	<b>30 June 2007</b>
<b>Route Kilometres</b>	Length in Kilometres	Length in Kilometres
1067mm Gauge		
Owned	9,526	9,521
Less: Lines Suspended from Use	246	246
Lines with No Freight or Passenger Services	1,366	1,096
<b>Sub Total</b>	<b>7,914</b>	<b>8,179</b>
1435 mm Gauge	98	98
Dual Gauge	36	36
<b>Total in Use as at 30 June</b>	<b>8,048</b>	<b>8,313</b>

### Line Sections Opened During 2007/08

Sonoma balloon loop 4

**Rail Corridor Lease Surrendered During 2007/08** NIL

### Adjustments to Line Section Distances

Net increase in route kilometrage for deviations etc. 2

<b>Average Number Of Staff Employed</b>	<b>2007/08</b>	<b>2006/07</b>
Total Average Staff	15,027	14,602

<b>Rollingstock In Use</b>	<b>30 June 2008</b>	<b>30 June 2007</b>
Locomotives	717	673
Coal wagons	7,698	7,403
Minerals & Freight wagons	6,897	6,695
Passenger Rollingstock	715	686
Service stock	724	780

# Financial review

## QR has delivered another year of strong performance with its profit before tax increasing by 7% to \$281 million on the previous financial year.

The significant result is due to increased freight revenue, sale of surplus property, diesel fuel and positive hedging variances and a general focus on reduction of overhead spend.

A dividend of \$151.5 million was paid during the year. Due to the higher profit, a dividend of \$156.8 million has been provided for in this year's accounts to be paid next year.

### Consolidated Financial Performance (Income Statement)

For the 2007/08 financial year, QR Group recorded a profit before tax of \$281 million compared with \$262 million for the previous year. Revenue from operations and associated

income again exceeded \$3 billion, increasing by \$344 million to \$3.4 billion. This increase is derived from freight haulage, net unrealised gains on foreign exchange and commodity derivatives, sale of surplus property and increase in revenue from Transport Service Contracts.

Expenses increased by 11% predominantly due to increased infrastructure spend during the financial year.

### Consolidated Financial Position (Balance Sheet)

The total equity of QR Group, which represents our Shareholders' investment in the company, increased by 17.7% during the year to \$3.6 billion. Total QR borrowings during 2007/08 increased by 14.1% to \$5.2 billion. As a result, 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) remained at 62%.

## Consolidated Financial Performance

### For the year ended 30 June

	2008 \$ million	2007 \$ million
Revenue	3,543.3	3,199.0
EBITDA	1,073.5	1,006.5
Depreciation and amortisation	459.8	437.0
<b>EBIT</b>	<b>613.7</b>	<b>569.5</b>
Interest Expense	332.5	307.5
Profit before income tax	281.2	262.0
Income tax expense	86.7	78.8
<b>Net Profit</b>	<b>194.5</b>	<b>183.2</b>

**Capital Investment**

During 2007/08, QR Group invested more than \$1.7 billion in Property, Plant and Equipment programs across its operations. The most significant investments were in passenger infrastructure and rollingstock as a part of the SEQIPRAIL program, and in coal rollingstock to meet predicted demand.

**Debt and Gearing**

The QR Group borrowed \$1,419 million during the year to support its capital program. Debt increased to \$5.2 billion at 30 June 2008. Our Shareholders' equity in QR Group increased by 17.7%, reflecting an increase in asset values, contributions from shareholders, and the higher profit earned for the year. Interest cover remained consistent with the prior year as higher profit is offset by higher finance costs.

**Consolidated Cash Flows**

The QR Group generated operating cash flows of \$776.9 million in 2007/08, a decrease of 18.6% from 2006/07. The decrease was driven by higher operating supplier payments and lower receipts from customers.

Cash outflows from investing activities increased by \$382.5 million due to increased capital spend during the year.

Cash inflows from financing activities increased by \$579.7 million mainly due to increase in general borrowings to meet capital expenditure commitments.

**Consolidated Financial Position**

<b>As at 30 June</b>	<b>2008</b>	<b>2007</b>
	<b>\$ million</b>	<b>\$ million</b>
Current assets	766.6	595.7
Non-current assets	10,668.3	9,384.0
<b>Total assets</b>	<b>11,434.9</b>	<b>9,979.7</b>
Current liabilities	1,474.7	1,057.1
Non-current liabilities	6,331.3	5,838.1
<b>Total liabilities</b>	<b>7,806.0</b>	<b>6,895.2</b>
<b>Net assets</b>	<b>3,628.9</b>	<b>3,084.5</b>
Contributed equity	2,834.5	2,385.1
Retained profits	742.9	706.9
Reserves	51.5	(7.5)
<b>Total equity</b>	<b>3,628.9</b>	<b>3,084.5</b>
Gearing ratios		
Debit: equity (%)	161.0%	162.9%
Debit: equity plus debt (%)	62.0%	62.0%
Interest cover (times)	1.85	1.85

**Consolidated Cash Flows**

<b>For the year ended 30 June</b>	<b>2008</b>	<b>2007</b>
	<b>\$ million</b>	<b>\$ million</b>
Net cash from operating activities	776.9	954.7
Net cash from investing activities	(1712.7)	(1,330.2)
Net cash from financing activities	941.8	362.1
<b>Net increase / (decrease) in cash held</b>	<b>6.0</b>	<b>(13.4)</b>

# Glossary

## **Above Rail**

Rollingstock, such as locomotives and wagons.

## **AVVM**

Add value vending machines.

## **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.

## **CCTV**

Closed circuit television cameras utilised at stations to increase passenger safety.

## **Citytrain On-Time Running**

Scheduled Citytrain services arriving within three minutes of timetable divided by total scheduled services, expressed as a percentage.

## **Electronically Controlled Pneumatic (ECP) Braking System**

A leading-edge braking system used to enable more efficient braking and improved safety.

## **EEO**

QR is committed to the principles of Equal Employment Opportunity (EEO), and promotes EEO for all Aboriginal and Torres Strait Islander people, people from non-English speaking backgrounds, people with disabilities and women.

## **Environmental Incident**

An undesired, unplanned and uncontrolled event that under different circumstances may lead to environmental harm.

## **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.

## **MOU**

Memorandum of understanding.

## **Network**

Queensland's rail system, including all main railway lines, marshalling yards, bulk loading and unloading points and passenger stations.

## **OTR**

On-Time Running.

## **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.

## **Rail Operator**

A party (QR and non-QR) that operates rollingstock (ie trains) on a railway.

## **Rollingstock**

Locomotives and wagons.

## **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.

## **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.

## **SMS**

The Safety Management System (SMS) Re-Write Project was established to develop a new principles based SMS that supports accountability and standards ownership within QR.

## **TVM**

Ticket vending machines.

## **ZERO Harm**

ZERO Harm is a journey towards zero incidents, zero injuries, zero work-related illnesses and zero environmental incidents.

# Financial report

**The Financial Report for QR Limited and its controlled entities for the financial year ended 30 June 2008 are presented on the attached disc.**

**These reports include the Directors' Report, the Financial Statements, Notes to the Financial Statements, the Directors' Declaration and the Independent Auditor's Report.**

The key financial indicators presented in the Financial Report include the following;

- Profit for the year was up 6% to \$194.5 million;
- A dividend of \$156.8 million was declared for the 12 month period to be paid during 2008/09;
- Revenue from continuing operations increased 9% to \$3,420 million;
- Property, plant and equipment increased by 14% to \$10,156 million through acquisitions of new assets amounting to \$1,741 million during the year;
- The acquisition of property, plant and equipment was partially funded through additional borrowings amounting to \$1,419 million;
- Additional shares amounting to \$449.4 million were also issued to existing shareholders.

QR Limited and most of its controlled entities entered into a Deed of Cross Guarantee during the financial year. Under the Deed, the entities guarantee the debts of the other entities within the Deed. The Deed grants relief to the wholly-owned entities from the requirement to prepare and lodge financial statements for the 2007/08 financial year and subsequent years.

A more detailed overview of the financial performance of the QR Group is available on pages 6 – 70.

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## Further information

For assistance, publications or information concerning QR and the customer services we provide, please visit our website at [www.qr.com.au](http://www.qr.com.au) or contact:

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