Queensland Rail Limited

ABN 71 132 181 090

Financial report for the year ended 30 June 2020

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ABN 71 132 181 090
Financial report - 30 June 2020

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Directors' report

The directors present their report on the consolidated entity (referred to hereafter as the group) consisting of Queensland Rail Limited and the entity it controlled at the end of, or during, the year ended 30 June 2020.

Directors

D Marchant AM, Chair
S Cantwell
R Peters
H Watson

Information relating to directors' remuneration is contained in note 22 of the financial report.

Principal activities

During the year the principal activities of the group consisted of:
- South East Queensland (SEQ) above and below rail services; and
- Regional above and below rail services including Travel and Tourism Services.

Review of operations

The profit of the group for the financial year amounted to $119.4 million (2019: $141.5 million).

The group's vision is 'connecting communities through a modern, world-class rail service' with a focus on:
- Enhancing customer focus;
- Delivering a sustainable supply of traincrew to undertake services;
- Optimising resource deployment to meet demand;
- Strengthening core business capabilities; and
- Collaborating with key stakeholders to deliver improved transport outcomes.

The group's purpose is to provide a safe, reliable, on-time, value for money and customer focused rail service that benefits the community, supports industry and is integrated with the public transport system.

In the current reporting period the group focused on driving cultural and structural changes in the business to deliver a more integrated public transport structure for Queensland. The business structure was enhanced during the reporting period to align with its major product streams to promote performance and accountability.

Dividends

In respect of the financial year ended 30 June 2020, a dividend of $119.4 million was declared to the holders of fully paid ordinary shares (2019: $141.5 million). This dividend will be paid on or before 30 November 2020.

Significant changes in the state of affairs

No significant changes in the state of affairs of the group occurred during the financial year.

Matters subsequent to the end of the financial year

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

Likely developments and expected results of operations

The group will continue to work collaboratively with the Queensland State Government in achieving major deliverables which include:
- Integration of the New Generation Rollingstock into the Citytrain fleet;
- European Train Control System; and
- Cross River Rail.

The new trains and infrastructure will increase the group's capacity to meet the demand for rail services in South East Queensland, one of the fastest growing regions in Australia.

Environmental regulation

The group is required to comply with relevant environmental legislation. Exposure in this area is primarily related to air, land and water pollution, management of flora and fauna, environmental impacts and approvals associated with works; reporting of energy, greenhouse gas emissions; and managing waste.

Directors' report (continued)

Environmental regulation (continued)

It is not possible for the group to provide an estimate of the future expenditure in these areas due predominantly to integration of obligations into existing business process and the variability of ad hoc obligation application dependant on activity scope and timeframe. Furthermore, expenditure associated with responding to matters such as environmental incidents are unpredictable.

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

- *Environmental Protection Act 1994 and Regulation 2019 (Qld)*
- *Environment Protection and Biodiversity Conservation Act 1999 and Regulations 2000 (Commonwealth)*
- *Ozone Protection and Synthetic Greenhouse Gas Management Act 1989 and Regulations 1995 (Commonwealth)*
- *National Greenhouse and Energy Reporting Act 2007 and Regulations 2008 (Commonwealth)*
- *Fisheries Act 1994 and Regulation 2008 (Qld)*
- *Planning Act 2016 and Regulation 2017 (Qld)*
- *Biosecurity Act 2014 and Regulation 2016 (Qld)*
- *Coastal Protection and Management Act 1995 and Regulation 2017 (Qld)*
- *Nature Conservation Act 1992 and Regulations (Wildlife and Wildlife Management 2006 and Koala Conservation Plan 2017) (Qld)*
- *Vegetation Management Act 2012 and Regulation 2012 (Qld)*
- *Waste Reduction and Recycling Act 2011 and Regulation 2011 (Qld)*
- *Water Act 2000 and Regulation 2000 and Regulation 2016 (Qld)*
- *Wet Tropics World Heritage Protection and Management Act 1993 and Wet Tropics Management Plan 1998 (Qld)*

All compliance reporting obligations were met during the period.

The group coordinates with the Department of Environment & Science (DES) and other regulators on relevant environment investigations and other matters as required.

Following unprecedented flooding inundating a third party operator’s stowed train upon the Mt Isa Line in February 2019, resulting in release of transported product to the environment, Queensland Rail Limited continues to work closely with the Department of Environment & Science (DES), the third party operator and the product owner to progress requirements under the Clean-up Notice as issued to the three parties by DES under the provisions of the Environmental Protection Act 1994. Clean up works progressed throughout the period and are now complete. Assessments to monitor any temporal changes, and consequent risk exposures is ongoing. Liaison with affected stakeholders is ongoing, including actions to mitigate stakeholder business impacts as a result of the incident.

Queensland Rail Limited continues to maintain liaison with DES regarding any potential actions required in association with a third party abandoned pipeline that traverses the rail corridor.

Information on directors and officers

D Marchant AM *GAICD* Chair

Mr Marchant was appointed as a non-executive director on 7 October 2015, Interim Chair on 15 October 2018 and Chair on 29 March 2019. Mr Marchant has extensive Board experience and has held a number of executive and non-executive roles across a range of sectors including road, rail, water, gas, electricity, logistics and supply chain management. Mr Marchant is a former Chief Executive Officer of the Australian Rail Track Corporation and Director and Chair of the Australasian Railway Association. Mr Marchant also served as a Director of the Rail Industry Safety and Standards Board.

Mr Marchant has worked as Managing Director of Lend Lease Engineering and Managing Director of Lend Lease Infrastructure Services, and as a Director of the Hunter Valley Coal Chain Coordination Company Pty Ltd.

Mr Marchant was appointed a Member of the General Division of the Order of Australia in 2013 for significant service to the rail industry through national structural reform and infrastructure upgrades and has been a member of the Australian Institute of Company Directors since 2000.

Mr Marchant is a non-executive Director of Airservices Australia, Chair of its Technology and Investment Committee and a member of the Audit and Risk Committee, Safety Committee and Remuneration and Human Resources Committee.

S Cantwell *MBus, BBus, Grad Dip Transport & Logistics Management, FCILT, FCIEAM, GAICD* Director

Mr Cantwell was appointed as a non-executive director on 1 October 2016. Mr Cantwell has more than 40 years' experience in a broad range of strategic, functional and customer-facing roles within multi-billion dollar national and international business environments. In his executive career, Mr Cantwell has worked in a range of C-suite and CEO roles in both the private and public sector.

During six years at publicly listed Bradken, Mr Cantwell managed a global network of steel foundries and sales offices supplying differentiated consumable and capital products to markets in the resources, freight rail and power generation sectors in Australasia, Africa, China, India; as well as North and South America.

In his 33-year career at Queensland Rail, Mr Cantwell worked across various functions from entry level roles through to Chief Executive Officer. Mr Cantwell led what was then Australia's largest transportation company through significant restructuring and change, delivering growth and innovation across a broad portfolio of activities. As a result, he has established a reputation as a national leader in freight and passenger transport, and in supply chain innovation.

Mr Cantwell is Chair of Tasmanian Railway Pty Ltd, Chair of its Governance and Nomination Committee, and participates as an *ex-officio* member of its Safety and Environment, Audit and Risk and People and Remuneration Committees. Mr Cantwell is also a Director of Port of Brisbane Pty Ltd and a Member of the Townsville Industrial Development Board.

R Peters *B.Arch (Hons), B.App.Sci, Grad Dip Project Management, Registered Architect, FAICD* Director

Ms Peters was appointed as a non-executive director on 1 October 2016. Ms Peters was appointed as the Vice President Campus, Infrastructure and Services at Monash University in October 2018. Prior to this, Ms Peters was the Director for South East Queensland at AECOM and a Director at Conrad Gargett and has more than 25 years' of infrastructure experience, including senior executive roles with Leighton Contractors, Brisbane Airport and Visionstream.

Experienced in building high performance teams to deliver results, Ms Peters has contributed to many significant infrastructure projects such as Eastern Busway and Inner Northern Busway.

Ms Peters has worked on many major precincts / projects and is known for her ability to offer innovative approaches to complex and sensitive tasks. An outspoken advocate for delivering more to communities when delivering infrastructure, Ms Peters highlights the importance of weaving infrastructure back into the urban fabric, creating added economic benefits and engagement with the community.

Ms Peters has contributed to the development of Queensland and Brisbane through board and committee roles such as the Queensland Government Precinct Advisory Committee (Chair), Brisbane City Council Infrastructure Committee (Chair), the Urban Land Development Authority and the University of Queensland Senate.

Directors' report (continued)

Information on directors and officers (continued)

Ms Peters contributions are sought by government and industry to address key industry and state wide issues such as skill development, innovation and collaboration. She has worked closely with CEOs, board members, Ministers and Directors General to establish shared understanding of industry macro and micro economic impacts. Ms Peters is currently a Division Councillor of Property Council Australia (Victorian Division Council).

H Watson *LLB, GradCertBus, MAICD* Director

Ms Watson was appointed as a non-executive director on 6 June 2018. Ms Watson is a consultant and former partner with McCullough Robertson Lawyers. She brings more than 30 years' experience as a private sector lawyer and partner in regional and metropolitan practice in Queensland. For the last decade her specialist focus has been providing legal and governance strategic advice across charitable, non-profit and public sectors.

Ms Watson's industry expertise covers aged care, health and community services, affordable housing and Indigenous communities. Ms Watson's governance experience, both as an advisor and director, includes organisations with large workforces, multiple locations, significant property interests, business model transitions, subsidiary structures and complex stakeholder interests.

Ms Watson is currently a Board member of Children's Health Queensland Hospital and Health Service, Uniting (NSW & ACT) (Chair), Uniting (VIC & TAS), Australian Regional and Remote Community Services Ltd, Community Services Industry Alliance Ltd Reform Council (Chair), National Affordable Housing Consortium Ltd and Epic Good Foundation (Chair). Ms Watson is also an Advisory Council member of Queensland Family and Child Commission and an Advisory Board member of Australian Charities and Not for Profit Commission.

P McNamara *BCom* Company Secretary

Mr McNamara was appointed as a Company Secretary on 29 August 2011. Mr McNamara holds a Bachelor of Commerce and has more than 20 years' experience in managerial and senior governance roles within public and private entities operating in the property, transport and financial services industries.

Meetings of directors

The number of meetings the company's Board of Directors and each board committee held during the year ended 30 June 2020, and the number of meetings attended by each director were:

	Board		Audit and Risk Committee		People and Safety Committee		Major Projects and Procurement Committee	
	A	B	A	B	A	B	A	B
D Marchant AM	14	14	4	4	4	4	4	4
S Cantwell	14	14	-	-	4	4	4	4
R Peters	14	14	4	4	-	-	4	4
H Watson	14	14	4	4	4	4	-	-

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

Insurance of officers

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

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

Directors' report (continued)

Proceedings on behalf of the company

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

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

Auditor's independence declaration

The auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6.

Auditor

The Auditor-General of Queensland continues in office in accordance with section 327B(2) of the *Corporations Act 2001*, the Auditor-General is appointed in accordance with the *Auditor-General Act 2009*.

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

D Marchant AM
Chair

Brisbane, Qld
27 August 2020

Auditor's independence declaration

To the Directors of Queensland Rail Limited

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

Independence declaration

As lead auditor for the audit of Queensland Rail Limited for the year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been:

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

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

This declaration is in respect of Queensland Rail Limited and the entities it controlled during the period.

Vaughan Stemmett
as delegate of the Auditor-General

Queensland Audit Office
Brisbane

Consolidated statement of comprehensive income for the financial year 30 June 2020

	Notes	**2020 $'000**	2019 $'000
Revenue from operations	1	**2,111,705**	2,104,009
Other income		**3,305**	3,358
Total revenue and other income		**2,115,010**	2,107,367
Supplies and services		**(427,243)**	(458,472)
Reimbursement of employee costs		**(931,720)**	(855,528)
Depreciation and amortisation expense		**(399,122)**	(386,219)
Other expenses		**(24,096)**	(31,385)
Total expenses		**(1,782,181)**	(1,731,604)
Operating profit		**332,829**	375,763
Finance income		**196**	287
Finance expenses	2	**(162,468)**	(174,242)
Net finance costs		**(162,272)**	(173,955)
Profit before income tax		**170,557**	201,808
Income tax expense	3	**(51,199)**	(60,284)
Profit for the year		**119,358**	141,524
Other comprehensive income			
Items that may be reclassified to profit or loss			
Changes in the fair value of cash flow hedges		**(298)**	(33)
Income tax relating to components of other comprehensive income	3	**89**	10
Other comprehensive loss for the year		**(209)**	(23)
Total comprehensive income for the year		**119,149**	141,501

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

Consolidated balance sheet for the financial year 30 June 2020

	Notes	2020 $'000	2019 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**21,428**	3,446
Trade and other receivables		**38,979**	51,174
Prepayments		**11,921**	10,615
Inventories	4	**107,956**	97,391
Other current assets		**61**	239
Total current assets		**180,345**	162,865
Non-current assets			
Prepayments		**5,039**	10,500
Inventories	4	**32,236**	23,263
Property, plant and equipment	5	**7,690,570**	7,515,296
Intangible assets	6	**90,069**	96,576
Right-of-use assets	7	**97,630**	-
Deferred tax assets	8	**-**	-
Other non-current assets		**17,169**	55
Total non-current assets		**7,932,713**	7,645,690
Total assets		**8,113,058**	7,808,555
LIABILITIES			
Current liabilities			
Trade and other payables	9	**652,562**	623,803
Borrowings	16	**-**	46,448
Lease liabilities	7	**12,334**	-
Provisions	10	**3,422**	3,411
Other current liabilities		**7,884**	26,326
Total current liabilities		**676,202**	699,988
Non-current liabilities			
Trade and other payables	9	**29,753**	23,793
Borrowings	16	**3,630,000**	3,380,000
Lease liabilities	7	**92,616**	-
Provisions	10	**3,908**	6,707
Deferred tax liabilities	11	**446,914**	447,223
Other non-current liabilities		**14,184**	24,305
Total non-current liabilities		**4,217,375**	3,882,028
Total liabilities		**4,893,577**	4,582,016
Net assets		**3,219,481**	3,226,539
EQUITY			
Contributed equity	12	**3,083,918**	3,083,918
Reserves		**138**	347
Retained earnings		**135,425**	142,274
Total equity		**3,219,481**	3,226,539

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

Consolidated statement of changes in equity for the financial year 30 June 2020

	Notes	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2019		**3,083,918**	**347**	**142,274**	**3,226,539**
Adjustment on adoption of AASB 16 *Leases*	7	-	-	(6,849)	(6,849)
Restated total equity at the beginning of the financial year		**3,083,918**	**347**	**135,425**	**3,219,690**
Profit for the year		-	-	119,358	119,358
Other comprehensive income		-	(209)	-	(209)
Total comprehensive income for the year		**-**	**(209)**	**119,358**	**119,149**
Transactions with owners in their capacity as owners:					
Contributions of equity		-	-	-	-
Dividends provided	13	-	-	(119,358)	(119,358)
		-	**-**	**(119,358)**	**(119,358)**
Balance at 30 June 2020		**3,083,918**	**138**	**135,425**	**3,219,481**
Balance at 1 July 2018		**2,602,628**	**370**	**142,274**	**2,745,272**
Profit for the year		-	-	141,524	141,524
Other comprehensive income		-	(23)	-	(23)
Total comprehensive income for the year		**-**	**(23)**	**141,524**	**141,501**
Transactions with owners in their capacity as owners:					
Contributions of equity		481,290	-	-	481,290
Dividends provided	13	-	-	(141,524)	(141,524)
		481,290	**-**	**(141,524)**	**339,766**
Balance at 30 June 2019		**3,083,918**	**347**	**142,274**	**3,226,539**

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

Consolidated statement of cash flows for the financial year 30 June 2020

	Notes	**2020 $'000**	2019 $'000
Cash flows from operating activities			
Receipts from customers*		**361,152**	351,798
Receipts from Transport Service Contract*		**1,960,117**	1,955,771
Interest received		**189**	350
Payments to suppliers and employees*		**(1,492,133)**	(1,408,284)
Interest and other costs of finance paid		**(180,022)**	(188,286)
Net GST paid		**(120,749)**	(121,437)
Net cash inflow from operating activities	14	**528,554**	589,912
Cash flows from investing activities			
Payments for property, plant and equipment and intangibles		**(527,763)**	(551,315)
Proceeds from the disposal of property, plant and equipment and intangibles		**8,895**	6,720
Loans to related parties		**-**	701
Repayments of loans to related parties		**(43,456)**	-
Net cash outflow from investing activities		**(562,324)**	(543,894)
Cash flows from financing activities			
Proceeds from borrowings	15	**203,552**	46,448
Repayments of principal element of lease liabilities	15	**(10,276)**	-
Dividends paid	13	**(141,524)**	(113,461)
Net cash inflow / (outflow) from financing activities		**51,752**	(67,013)
Net increase / (decrease) in cash and cash equivalents		**17,982**	(20,995)
Cash and cash equivalents at the beginning of the financial year		**3,446**	24,441
Cash and cash equivalents at end of year		**21,428**	3,446

* Inclusive of goods and services tax (GST).

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

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Notes to the consolidated statement of comprehensive income

1 Revenue from operations

	2020 **$'000**	2019 $'000
Revenue from contracts with customers		
Rail Transport Service Contract revenue	**1,794,252**	1,777,911
Network access revenue	**200,283**	177,257
Passenger transport revenue	**59,150**	72,221
Other revenue from customer contracts	**31,953**	41,381
Operating lease revenue	**23,127**	29,754
Other revenue		
Other revenue	**2,940**	5,485
	2,111,705	2,104,009

The group recognises revenue as performance obligations are satisfied and it is probable that future economic benefits will flow to the group. Revenue shall be measured at an amount that reflects the fair value of the consideration received or receivable.

(a) Rail Transport Service Contract

A Rail Transport Service Contract (TSC) was entered into between Queensland Rail Limited and the State of Queensland on 20 July 2015. This was a three year contract with two extension options of 12 to 24 months each. The second of these options was executed in June 2020 for a period of 24 months commencing 1 July 2020.

Revenue for the provision of agreed services is fixed under the contract. This contract covers revenue to Queensland Rail Limited from the Department of Transport and Main Roads (DTMR), on behalf of the State of Queensland, for services provided by Queensland Rail Limited associated with:

- Citytrain and City Network Services
  Queensland Rail Limited earns revenue for the delivery of train services on the City Network in accordance with the timetable and for maintenance of the City Network infrastructure. Scheduled services and non-scheduled services for Citytrain are the separately identifiable performance obligations for Citytrain and City Network services. The maintenance of the City Network infrastructure are ancillary costs of providing reliable and safe Citytrain services.
- Travel and Tourism Services
  Queensland Rail Limited earns revenue associated with travel services provided to the public on Travel and Tourism Services. Scheduled services are the separately identifiable performance obligations for Travel and Tourism Services.
- Regional Infrastructure Services
  Queensland Rail Limited earns revenue for the maintenance of the Regional Network infrastructure. The separately identifiable performance obligation for Regional Network is the continued maintenance of the regional infrastructure to a safe and fit for purpose standard throughout the year. Revenue generated is recognised as the services are provided over time.

(b) Network access

Revenue generated from rail network access is calculated based on a number of operating parameters (such as tonnage hauled) applied to either regulator approved tariffs or negotiated access agreements. In some circumstances where paths are not utilised by customers, a take or pay fee is charged. This fee is subject to individual access contracts. Revenue generated from the utilisation of the Access Rights is recognised as the services are provided. Take or pay revenue is recognised at a point in time.

(c) Passenger transport

Other train passenger service revenue comprises ticket and related sales on Travel and Tourism Services. Traveltrain and Tourist train revenues are recognised at the time the service is provided and income relating to future services is accounted for as a liability. The sale of catering items is recognised when the goods have been transferred to the customer.

1 Revenue from operations (continued)

(d) Income in advance from contracts with customers

2020	**Passenger transport revenue $'000**	**Other revenue from customer contracts $'000**	**Total $'000**
Opening balance	5,329	2,823	8,152
Adjustment on adoption of AASB 16 *Leases*	-	(131)	(131)
Restated opening balance	5,329	2,692	8,021
Revenue recognised from the opening balance as performance obligations are satisfied	(5,329)	(2,692)	(8,021)
Income in advance recognised as performance obligations not yet satisfied	54,223	10,696	64,919
Revenue recognised as performance obligations are satisfied	(50,685)	(8,792)	(59,477)
Closing balance	3,538	1,904	5,442

2019			
Opening balance	5,521	3,344	8,865
Revenue recognised from the opening balance as performance obligations are satisfied	(5,521)	(3,344)	(8,865)
Income in advance recognised as performance obligations not yet satisfied	68,024	14,704	82,728
Revenue recognised as performance obligations are satisfied	(62,695)	(11,881)	(74,576)
Closing balance	5,329	2,823	8,152

2 Finance expenses

	2020 $'000	2019 $'000
Interest and finance charges on borrowings	**160,767**	173,959
Interest on lease liabilities	**1,598**	-
Other interest	**103**	283
	162,468	174,242

3 Income tax expense

Income tax expense comprises current and deferred tax and is recognised in the consolidated statement of comprehensive income except to the extent that it relates to items recognised directly in equity. The income tax expense or benefit for the period is the tax payable or receivable on the current period's taxable income based on the income tax rate, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

3 Income tax expense (continued)

(a) Income tax expense

	Notes	2020 $'000	2019 $'000
Current tax		**47,765**	51,086
Deferred tax		**3,548**	10,382
Adjustments for current tax of prior periods		**(8)**	(293)
Recognition of capital tax loss		**(106)**	(891)
		51,199	60,284
Deferred income tax expense / (benefit) included in income tax expense comprises:			
(Increase) in deferred tax assets	8	**(14,269)**	(1,287)
Increase in deferred tax liabilities	11	**17,817**	11,669
		3,548	10,382

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2020 $'000	2019 $'000
Profit from continuing operations before income tax expense	**170,557**	201,808
Tax at the Australian tax rate of 30% (2019: 30%)	**51,167**	60,542
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:		
Entertainment	**5**	-
Capital gains / (losses) not recognised	**1**	-
Luxury car tax	**32**	35
Other	**2**	-
Adjustments for current tax of prior periods	**(8)**	(293)
	32	(258)
Total income tax expense	**51,199**	60,284

(c) Amounts recognised directly in equity

	Notes	2020 $'000	2019 $'000
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity:			
Net deferred tax - debited / (credited) directly to equity	8, 11	**(89)**	(10)
		(89)	(10)

(d) Income tax consolidation

Queensland Rail, parent entity and the head entity and its wholly owned Australian subsidiaries consisting of Queensland Rail Limited and On Track Insurance Pty Ltd are entities which are members of the Queensland Rail National Tax Equivalents Regime (NTER) income tax consolidated group. Income tax equivalent payments are made to the Queensland Government.

In accordance with Interpretation 1052 the specified subsidiary members each recognise the tax effect of their own transactions in their financial statements and the head entity recognises the aggregate current income tax liability of the group and the benefit of any tax losses arising in the group in its financial statements.

3 Income tax expense (continued)

(d) Income tax consolidation (continued)

The group compensates Queensland Rail for any current tax payable assumed and is compensated by Queensland Rail for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Queensland Rail under income tax consolidation legislation. The funding amounts are recognised as non-current inter-company receivables or payables.

Notes to the consolidated balance sheet

4 Inventories

	2020			2019		
	Current $'000	**Non-current $'000**	**Total $'000**	Current $'000	Non-current $'000	Total $'000
Raw materials and stores	**120,707**	**32,236**	**152,943**	110,538	23,263	133,801
Work in progress	**289**	**-**	**289**	191	-	191
Less: allowance for inventory obsolescence	**(13,040)**	**-**	**(13,040)**	(13,338)	-	(13,338)
	107,956	**32,236**	**140,192**	97,391	23,263	120,654

Inventory recognised as expense during the year ended 30 June 2020 amounted to $59.9 million (2019: $73.0 million). Inventory capitalised to property, plant and equipment during the year ended 30 June 2020 amounted to $61.6 million (2019: $64.6 million).

Judgements and estimates

The value of inventories reported includes items held in centralised stores, workshops and infrastructure and rollingstock depots. Cost comprises cost of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition. Inventories are valued at the lower of cost and net realisable value. Cost is determined on either an average cost or standard cost methodology depending on the inventory location. Items expected to be consumed after more than one year are classified as non-current.

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

5 Property, plant and equipment

(a) Movements in property, plant and equipment

	Work in progress $'000	Land $'000	Leased property $'000	Buildings $'000	Plant and equipment $'000	Major plant and equipment $'000	Infrastructure $'000	Total $'000
At 1 July 2019								
Cost	469,590	103,022	19,129	790,194	402,035	2,208,003	6,733,879	10,725,852
Accumulated depreciation and impairment losses	-	(690)	(16,389)	(264,819)	(175,110)	(1,183,192)	(1,570,356)	(3,210,556)
Net book amount	469,590	102,332	2,740	525,375	226,925	1,024,811	5,163,523	7,515,296
Adjustment on adoption of AASB 16 *Leases*	-	-	(262)	-	-	-	-	(262)
Restated net book amount	469,590	102,332	2,478	525,375	226,925	1,024,811	5,163,523	7,515,034
Year ended 30 June 2020								
Restated opening net book amount	469,590	102,332	2,478	525,375	226,925	1,024,811	5,163,523	7,515,034
Additions	592,824	-	-	-	-	-	-	592,824
Transfers between asset classes	(463,070)	-	-	46,113	60,929	27,076	328,952	-
Transfers to supplies and services	(21,912)	-	-	-	-	-	-	(21,912)
Transfers from State Government	-	-	-	-	-	-	-	-
Disposals	-	(1,647)	-	(3,672)	(9,862)	(313)	(6,690)	(22,184)
Depreciation expense	-	-	(1,699)	(33,095)	(31,521)	(82,875)	(224,002)	(373,192)
Closing net book amount	577,432	100,685	779	534,721	246,471	968,699	5,261,783	7,690,570
At 30 June 2020								
Cost	577,432	101,375	17,295	830,878	418,931	2,100,900	7,036,463	11,083,274
Accumulated depreciation and impairment losses	-	(690)	(16,516)	(296,157)	(172,460)	(1,132,201)	(1,774,680)	(3,392,704)
Net book amount	577,432	100,685	779	534,721	246,471	968,699	5,261,783	7,690,570

5 Property, plant and equipment (continued)

(a) Movements in property, plant and equipment (continued)

	Work in progress $'000	Land $'000	Leased property $'000	Buildings $'000	Plant and equipment $'000	Major plant and equipment $'000	Infrastructure $'000	Total $'000
At 1 July 2018								
Cost	374,161	103,060	19,129	689,118	349,535	2,222,554	6,034,390	9,791,947
Accumulated depreciation and impairment losses	-	(690)	(14,499)	(229,380)	(162,096)	(1,158,862)	(1,350,513)	(2,916,040)
Net book amount	374,161	102,370	4,630	459,738	187,439	1,063,692	4,683,877	6,875,907
Year ended 30 June 2019								
Opening net book amount	374,161	102,370	4,630	459,738	187,439	1,063,692	4,683,877	6,875,907
Additions	559,726	-	-	-	49	-	-	559,775
Transfers between asset classes	(460,249)	-	-	22,692	81,199	51,080	305,278	-
Transfers to supplies and services	(4,048)	-	-	-	-	-	-	(4,048)
Transfers from State Government*	-	-	-	70,513	4,042	-	406,735	481,290
Disposals	-	(38)	-	(1,084)	(6,219)	(189)	(22,124)	(29,654)
Depreciation expense	-	-	(1,890)	(26,484)	(39,585)	(89,772)	(210,243)	(367,974)
Closing net book amount	469,590	102,332	2,740	525,375	226,925	1,024,811	5,163,523	7,515,296
At 30 June 2019								
Cost	469,590	103,022	19,129	790,194	402,035	2,208,003	6,733,879	10,725,852
Accumulated depreciation and impairment losses	-	(690)	(16,389)	(264,819)	(175,110)	(1,183,192)	(1,570,356)	(3,210,556)
Net book amount	469,590	102,332	2,740	525,375	226,925	1,024,811	5,163,523	7,515,296

* The transfers from State Government represents assets associated with the Moreton Bay Rail Link and also car park assets. The assets were transferred in June 2019 at their carrying amount in exchange for equity in Queensland Rail Limited in accordance with a Transfer Notice under the *Queensland Rail Transit Authority Act 2013*.

5 Property, plant and equipment (continued)

(b) Initial recognition

From 1 July 2018, items of expenditure which are expected to provide future economic benefits are recognised as an item of property, plant and equipment, when in excess of:

- $1 for land
- $5,000 for plant and equipment and major plant and equipment
- $10,000 for infrastructure and building assets and
- $20,000 for capital spares.

Prior to 1 July 2018, the threshold of $2,000 was applied to all plant and equipment, infrastructure and building assets.

Expenditure that does not meet the definition of an asset is treated as an operating expense in the period in which the expenditure is incurred. If capital spares cost less than $20,000, the item is recorded in inventory.

Property, plant and equipment is measured at cost less accumulated depreciation.

Work in progress

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

The transfers between asset classes represents property, plant and equipment commissioned during the period.

The transfers to supplies and other services represent expenditure incurred over the life of capital projects that are expensed in the current year on the basis that they are operational in nature or comprise expenditure on capital works on behalf of third parties in accordance with the group's capitalisation policy.

Land

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

Leased property

The make good assets of leased properties previously disclosed under leased property was removed from property, plant and equipment and included in the right-of-use asset on adoption of AASB 16.

Major plant and equipment

Rollingstock is considered to be major plant and equipment.

Gifted and donated assets

Assets received from government at no cost are measured at fair value and recognised as income in advance which is subsequently amortised to government grants revenue over the useful life of the asset. Fair value means the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

(c) Subsequent and maintenance costs

Costs related to repairs and maintenance activities are expensed when performed. Subsequent costs are only recognised as property, plant and equipment when there is an increase in the original assessed capacity or service potential of an asset, it is probable that future economic benefits associated with the item will flow to the group and the cost can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced.

(d) Depreciation

Assets are depreciated from the date of acquisition, or, in respect of internally constructed or manufactured assets, from the time an asset is completed and held ready for use.

Where assets have separately identifiable components that are subject to regular replacement, these components are assigned useful lives distinct from the asset to which they relate.

5 Property, plant and equipment (continued)

(d) Depreciation (continued)

Buildings, plant and equipment, major plant and equipment and infrastructure are depreciated on a straight-line basis over the useful life net of the residual value. Motor vehicles are depreciated using the diminishing value basis (percentages range from 13.64% to 35.00%).

Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

Major spares purchased specifically for particular assets are recognised as an item of property, plant and equipment and depreciated in line with standard asset class lives.

Land and work in progress are not depreciated.

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

Infrastructure 6 - 100 years including:	
Rail	50 years
Sleepers	17 - 70 years
Ballast	30 years
Civil works	20 - 100 years
Bridges	20 - 100 years
Electrification	15 - 50 years
Field signals	15 - 40 years
Telecommunications	6 - 20 years
Buildings 5 - 50 years including:	
Structures	25 - 50 years
Lifts and escalators	10 - 50 years
Air conditioning units	10 - 25 years
Fire and security equipment	5 - 30 years
Fit-outs	15 years
Major plant and equipment 7 - 50 years including:	
Country and suburban cars	35 - 50 years
Overhauls	7 - 15 years
Plant and equipment	4 - 25 years

Remaining useful lives of assets are reviewed annually.

Judgements and estimates

On initial recognition management estimates the useful lives and residual value of property, plant and equipment. The useful life is based on the expected period of time over which economic benefits from use of the asset will be derived and the residual value is based on the consideration that may be received from a willing buyer at the end of the asset's useful life. Management reviews useful life and residual value assumptions on an annual basis having given consideration to variables including historical and forecast usage rates, technological advancements, changes in legal and economic conditions, condition of the asset and movement in market indices and prices. Any change in useful lives and residual values of property, plant and equipment is accounted for prospectively.

The rollout of the New Generation Rollingstock (NGR) fleet is expected to take several years. Management have been monitoring the transition to the NGR and existing Queensland Rail Limited owned rollingstock are gradually being retired. The NGR assets are provided by the Department of Transport and Main Roads and operated by the group in accordance with the Rail Transport Service Contract.

Management implemented a new framework from 1 July 2018 to improve the management of its property, plant and equipment. All asset classes are capitalised at their optimum componentised level to reflect current business replacement forecasts. The replacement framework drives improved estimation of useful lives and depreciation expense.

The impact of implementing this framework was accounted for prospectively from 1 July 2018. In accordance with paragraph 28(h) of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* it was deemed impracticable to account for this framework retrospectively, being the current and prior reporting periods.

5 Property, plant and equipment (continued)

(e) Impairment

Assets (including work in progress) are tested for impairment annually to determine if there are indications that the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset or cash generating unit (CGU).

For the purposes of assessing impairment, assets are grouped into CGUs at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets. The group identified three CGUs being South East Queensland, Regional and Mt Isa.

An impairment assessment on all CGUs was undertaken prior to reporting date. No impairment was recognised in the current or prior reporting period. Assets that were damaged beyond repair as a result of the North Queensland flood disaster in the prior reporting period have been disposed of at their carrying amount and their replacement has been recognised as property, plant and equipment. This replacement program has not resulted in an impairment of the assets within the Regional or Mt Isa CGUs.

Judgements and estimates

Value in use calculations require the use of assumptions. These assumptions include the allocation of management's assessment of future cash flows for the next five years for the group to each CGU and the discounting of nominal amounts using the weighted average cost of capital applicable to that CGU. The cash flows include a terminal value which is determined using a perpetuity calculation after adjusting for annual growth.

Management has adopted an expected cash flow approach when assessing future cash flows in accordance with accounting standards. The expected cash flow approach represents expectations about possible future cash flows. Probabilities were assigned to transport service contract revenue and were weighted in accordance with their likelihood. This approach has provided management certainty in determining the recoverable amount of the group's assets.

(f) Non-current assets pledged as security

No assets have been pledged as security by the group.

(g) Cross River Rail

In the prior period the Queensland Government announced the delivery of the Cross River Rail (CRR) program comprising three major packages of work which will be delivered by a Consortia. This program includes:
- Tunnel, Stations and Development (TSD);
- Rail, Integration and Systems (RIS); and
- European Train Control System (ETCS) Level 2.

CRR program will provide vital infrastructure to support the group's growth and transformation to a modern, customer-focused, world-class rail service and to cater for future public transport demand. CRR is a 10.2 kilometre rail line which includes 5.9 kilometres of twin tunnels under the Brisbane River and Central Business District (CBD). The CRR program includes four new high capacity underground stations along with upgrades to existing Queensland Rail Limited owned stations.

Delivery of the program is led by the Cross River Rail Delivery Authority (CRRDA), established under the *Cross River Rail Delivery Authority Act 2016*. Upon completion of this program the group will operate the CRR network and provide passenger rail services for Queensland. This will require the safe and efficient delivery and integration of the CRR infrastructure into the existing South East Queensland rail network and operations.

Judgements and estimates

The group will own and manage a portion of the assets associated with the CRR Program including the ETCS Inner City network and RIS. Queensland Rail Limited, CRRDA and the Department of Transport and Main Roads are working collaboratively on the financial governance associated with this program. The balance of Work in Progress includes costs incurred directly associated with this program that is expected to generate future economic benefits to the group. Expenditure that does not meet the asset recognition criteria under the accounting standards and policies of the group is recognised as capital works expense when incurred.

As at the reporting date, the composition of all the CRR assets and their legal ownership was still to be determined by the Queensland Government.

6 Intangible assets

	Software under development $'000	Software $'000	Total $'000
At 1 July 2019			
Cost	17,181	188,015	205,196
Accumulated amortisation and impairment losses	-	(108,620)	(108,620)
Net book amount	17,181	79,395	96,576
Year ended 30 June 2020			
Opening net book amount	17,181	79,395	96,576
Additions	10,179	-	10,179
Transfers between asset classes	(2,275)	2,275	-
Transfers to supplies and services	(2,105)	-	(2,105)
Amortisation expense	-	(14,581)	(14,581)
Closing net book amount	22,980	67,089	90,069
At 30 June 2020			
Cost	22,980	187,597	210,577
Accumulated amortisation and impairment losses	-	(120,508)	(120,508)
Net book amount	22,980	67,089	90,069
At 1 July 2018			
Cost	59,971	134,297	194,268
Accumulated amortisation and impairment losses	-	(99,020)	(99,020)
Net book amount	59,971	35,277	95,248
Year ended 30 June 2019			
Opening net book amount	59,971	35,277	95,248
Additions	19,761	-	19,761
Transfers between asset classes	(62,363)	62,363	-
Transfers to supplies and services	(188)	-	(188)
Amortisation expense	-	(18,245)	(18,245)
Closing net book amount	17,181	79,395	96,576
At 30 June 2019			
Cost	17,181	188,015	205,196
Accumulated amortisation and impairment losses	-	(108,620)	(108,620)
Net book amount	17,181	79,395	96,576

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits are recognised as intangible assets. Costs recognised as intangible assets include external direct costs of materials and service and direct payroll related costs of employees' time spent on the project. Software under development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the group has an intention and ability to use the asset. Software has a finite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the useful life which varies from 4 to 20 years.

From 1 July 2018, intangibles have a threshold of $100,000. If intangibles are under $100,000, expenditure is not recognised as an intangible asset and is treated as an operating expense in the period in which the expenditure is incurred. Prior to 1 July 2018, the threshold of $50,000 was applied.

7 Leases

(a) Details of leasing arrangements as lessee

The group routinely enters into leases for land and buildings and telecommunication infrastructure. Some of the land and building leases are short-term. Lease terms for leases that are recognised on balance sheet can range from 5 to 30 years. Several leases have renewal or extension options. The options are generally exercisable at market prices and are not included in the right-of-use (ROU) asset or lease liability unless the group is reasonably certain it will renew the lease.

The group is also party to specific arrangements which would satisfy the criteria for recognition as a lease under AASB 16 *Leases*. However, the consideration for these arrangements amount to, in most cases, $1 per annum. These arrangements are commonly referred to as “peppercorn leases”. These include access to corridor land from the Department of Transport and Main Roads (TMR). As the group recognises the ROU assets at cost, these leases are immaterial and therefore no ROU assets or lease liabilities are recognised.

Contracts may contain both lease and non-lease components. The group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Lease terms are negotiated on an individual basis and contain a range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

In prior reporting periods, leases of property, plant and equipment were classified as either finance leases or operating leases. In the prior reporting period, the group was not party to any finance leases. Non-cancellable operating leases were disclosed as commitments in the prior period.

Reconciliation of prior period operating lease commitments to the opening balance of lease liabilities on adoption of AASB 16 in the current period.

	Land and buildings $'000	**Infrastructure $'000**	**Total $'000**
Operating lease commitments disclosed as at 30 June 2019	24,301	17,782	42,083
(Less): unwind discount	(3,370)	(2,604)	(5,974)
(Less): index variance*	(97)	(231)	(328)
(Less): Contract amendments	-	(3,210)	(3,210)
Add: uncommitted options	38,445	2,531	40,976
Add: prepayment adjustment	38	80	118
Add: onerous contracts	1,810	-	1,810
Lease liability recognised as at 1 July 2019	**61,127**	**14,348**	**75,475**

* Index variance - only fixed index rates are used in the measurement of lease liabilities; variable index rates such as CPI are not included.

In the current reporting period, the group has recognised right-of-use assets and corresponding liabilities for all operating leases, except for short-term and low-value leases, at the date at which the leased asset is available for use by the group, in accordance with AASB 16.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the group under residual value guarantees;
- the exercise price of a purchase option if the group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

Lease payments to be made, under reasonably certain extension options, are also included in the measurement of the liability.

For new leases entered from in the current reporting period, the lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the group, the group’s incremental borrowing rate is used, being the Queensland Treasury Corporation's (QTC) Fixed Loan Rates that correspond with the lease commencement month and lease term.

7 Leases (continued)

(a) Details of leasing arrangements as lessee (continued)

The group is exposed to potential future increases in variable lease payments based on an index or rate. When the rate or index is unknown and are not implicit in the contract, they are not included in the lease liability until they take effect. The group's exposure is primarily due to market reviews or consumer price indexation. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period based on a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:
- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

Right-of-use assets are depreciated over the lease term on a straight-line basis.

On transition, the modified retrospective approach was used, and discounted using the group's incremental borrowing rate. Using the modified retrospective approach:
- the right-of-use asset is recognised as the carrying amount as if AASB 16 always applied, using the incremental borrowing rate at the date of transition and assessed for impairment (onerous contract provision) and subleasing impacts; and
- the lease liability is recognised for outstanding payments from 1 July 2019 using the incremental borrowing rate at the date of transition.

The weighted average incremental borrowing rate of 1.72% was used on adoption.

The modified retrospective approach does not require the restatement of comparative information. Instead, the lessee recognises any difference between opening lease liability and right-of-use asset as an adjustment to the opening balance of retained earnings.

Balance sheet movements on adoption	**1 July 2019** **$'000**
Increase in right-of-use assets	66,797
Increase in other assets	18,133
Increase in lease liabilities	75,475
Increase in other liabilities	16,304
Decrease in opening retained earnings	**(6,849)**

Payments associated with short-term leases and all leases of low-value assets are recognised as a direct expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. The group's low-value asset threshold is $10,000. This threshold is applied to the value of the asset when new, regardless of the age of the asset when being leased.

When the group subleases any of the right-of-use assets, an assessment is made to classify the sublease as either a finance lease or an operating lease. Where the sublease is for the major part of the remaining economic life of the underlying asset (the lease term), the sublease is classified as a finance lease. The group uses the interest rate implicit in the lease, or if unattainable the discount rate used for the head lease, to measure the net investment in the lease. The right-of-use asset is derecognised and the net investment in the sublease is recognised at the commencement of the sublease.

Judgements and estimates

The determination of the right-of-use assets and lease liability is dependent on a number of judgements including:
- whether a contract is, or contains, a lease;
- expected payment terms, for example monthly in advance;
- the index or rate in determining lease payments;
- costs incurred in connection with a lease that are not part of the cost of the right-of-use asset; and
- reasonably certainty of exercising options.

7 Leases (continued)

(a) Details of leasing arrangements as lessee (continued)

(i) Movements in right-of-use assets and lease liabilities

Right-of-use assets

	Land and buildings $'000	Infrastructure $'000	Total $'000
At 1 July 2019	**49,511**	**17,286**	**66,797**
Additions	10,017	-	10,017
Remeasurement	32,037	128	32,165
Depreciation / amortisation expense	(9,530)	(1,819)	(11,349)
At 30 June 2020	**82,035**	**15,595**	**97,630**

Lease liabilities

	Land and buildings $'000	Infrastructure $'000	Total $'000
At 1 July 2019	**61,127**	**14,348**	**75,475**
Additions	10,017	-	10,017
Remeasurement	32,037	128	32,165
Lease payments	(10,852)	(1,784)	(12,636)
Interest expense	1,320	278	1,598
Derecognised	(1,669)	-	(1,669)
At 30 June 2020	**91,980**	**12,970**	**104,950**

(ii) Net investment in subleases

	Land and buildings $'000	Infrastructure $'000	Total $'000
At 1 July 2019	**1,867**	**-**	**1,867**
Remeasurement	(23)	-	(23)
Amortised interest	11	-	11
Payments received	(785)	-	(785)
Derecognised	(1,070)	-	(1,070)
At 30 June 2020	**-**	**-**	**-**

(iii) Amounts recognised in the consolidated statement of comprehensive income

	2020 $'000	2019 $'000
Depreciation charge of right-of-use assets		
Land and buildings	**9,530**	-
Infrastructure	**1,819**	-
	11,349	-
Lease liability - interest expense	**1,598**	-
Other - rental expense*	**894**	-

* includes short-term, low value and variable lease payments

(iv) Amounts recognised in the consolidated statement of cash flows

The total cash outflow for leases in 2020 was $12.6 million.

7 Leases (continued)

(a) Details of leasing arrangements as lessee (continued)

(v) Lease liability maturity analysis

Lease liabilities	2020 $'000	2019 $'000
Less than 1 year	**11,399**	-
Between 1 and 5 years	**47,020**	-
Over 5 years	**13,993**	-
Total contractual cash flows	**72,412**	-

The lease liability disclosed in the maturity analysis are the committed undiscounted contractual amounts. These undiscounted cash flows differ from the amount in the consolidated balance sheet because the amount in that statement is based on:

- discounted cash flows;
- uncommitted option periods that the group are reasonably certain to exercise; and
- fixed index rates only (variable index rates such as CPI are not included).

(b) Details of leasing arrangements as lessor

The group routinely leases out land and buildings and telecommunication infrastructure. The lease terms are up to 30 years and are non-cancellable. Refer to note 20(b).

The group subleases floor space within 295 Ann Street Brisbane which expires September 2020. This sublease was originally for the remaining term of the head lease and recognised as a net investment in sublease. The head lease was renegotiated to a 5-year head agreement and subsequently, the sublease was then classified as an operating lease.

The total cash inflow for leases in 2020 was $9.4 million.

8 Deferred tax assets

	Notes	2020 $'000	2019 $'000
The balance comprises temporary differences attributable to:			
Accrued expenses		**18,299**	13,020
Capital losses		**997**	891
Provisions		**7,444**	8,192
Lease liabilities		**31,485**	-
Unearned revenue		**3,989**	1,542
Foreign exchange gains		**55**	66
Total deferred tax assets		**62,269**	23,711
Set-off of deferred tax liabilities pursuant to set-off provisions	11	**(62,269)**	(23,711)
Net deferred tax assets		**-**	-
Movements:			
Opening balance		**-**	-
Adjustment on adoption of AASB 16 *Leases*		**21,378**	-
Prior year adjustments		**2,805**	-
Credited to the consolidated statement of comprehensive income	3	**14,269**	1,287
Recognition of unused Capital Tax Loss		**106**	891
Set-off of deferred tax liabilities pursuant to set-off provisions	11	**(38,558)**	(2,178)
Closing balance at 30 June		**-**	-

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends to either settle on a net basis, or to realise the assets and settle the liability simultaneously.

8 Deferred tax assets (continued)

Judgements and estimates

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

9 Trade and other payables

	2020			2019		
	Current $'000	**Non-current $'000**	**Total $'000**	Current $'000	Non-current $'000	Total $'000
Trade payables	**195,606**	**-**	**195,606**	174,209	-	174,209
Inter-company payables	**327,275**	**29,753**	**357,028**	299,591	23,793	323,384
Dividend payable	**119,358**	**-**	**119,358**	141,524	-	141,524
Other payables	**10,323**	**-**	**10,323**	8,479	-	8,479
	652,562	**29,753**	**682,315**	623,803	23,793	647,596

Trade and other payables represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. Trade and other payables are measured initially at the transaction price and subsequently at fair value through profit or loss (FVTPL) due to the current nature of these liabilities. The amounts are unsecured and are usually paid within the terms set by the supplier.

10 Provisions

	2020			2019		
	Current $'000	**Non-current $'000**	**Total $'000**	Current $'000	Non-current $'000	Total $'000
Litigation provision	**1,238**	**535**	**1,773**	1,344	557	1,901
Land rehabilitation provision	**2,184**	**3,373**	**5,557**	983	4,128	5,111
Make good provision	**-**	**-**	**-**	-	1,297	1,297
Onerous contracts provision	**-**	**-**	**-**	1,084	725	1,809
	3,422	**3,908**	**7,330**	3,411	6,707	10,118

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

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

(a) Land rehabilitation provision

This provision recognises the estimated costs to remediate contaminated land in accordance with the group's constructive obligations per the environmental sustainability policy. These estimated costs have arisen as a result of past events.

The provision for land rehabilitation is the present value of management's best estimate of the expenditure required to settle the land rehabilitation present obligation at the reporting date. The provision was originally recognised in 2010 based on advice from external consultants and management's best estimate of likely remediation costs. In 2014 and 2019 external consultants were engaged to provide updated valuations. Management gave consideration to the most recent valuation and the likelihood of their remediation within the foreseeable future.

10 Provisions (continued)

(a) Land rehabilitation provision (continued)

Judgements and estimates

The determination of the provision required is dependent on estimations of the expenditure required to settle the land rehabilitation obligation.

(b) Onerous contracts provision

On adoption of AASB 16 *Leases*, the right-of-use assets were adjusted by the amount of any previously recognised onerous lease provision.

The prior year provision represented the net unavoidable costs expected to be incurred on commitments for property leases concerning commercial office space in Brisbane. The net unavoidable costs comprise the commitments under the lease contracts for offices that are currently vacated by the company less expected revenue to be received from the sub-lease of office space under the same contracts. The onerous provision is equivalent to the present value of the future net unavoidable costs.

Judgements and estimates

The determination of the provision required is dependent on estimations for the likelihood of whether floors will be utilised by the group.

(c) Movements in provisions

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

2020	**Litigation provision $'000**	**Land rehabilitation provision $'000**	**Make good provision $'000**	**Onerous contracts provision $'000**	**Total $'000**
Current and non-current					
Carrying amount at start of year	1,901	5,111	1,297	1,809	10,118
Adjustment on adoption of AASB 16 *Leases*	-	-	-	(1,809)	(1,809)
Restated carrying amount at start of year	1,901	5,111	1,297	-	8,309
Charged / (credited) to profit or loss					
- additional provisions recognised	310	350	-	-	660
- unused amounts released	-	-	(1,303)	-	(1,303)
- unwind discount	-	96	6	-	102
Amounts used during the year	(438)	-	-	-	(438)
Carrying amount at end of year	1,773	5,557	-	-	7,330

11 Deferred tax liabilities

	Notes	2020 $'000	2019 $'000
The balance comprises temporary differences attributable to:			
Accrued income		**-**	300
Supplies and other services and spare parts		**10,851**	10,255
Property, plant and equipment		**468,848**	460,091
Right-of-use assets		**29,289**	-
Prepayments		**136**	139
Cash flow hedges		**59**	149
Total deferred tax liabilities		**509,183**	470,934
Set-off of deferred tax liabilities pursuant to set-off provisions	8	**(62,269)**	(23,711)
Net deferred tax liabilities		**446,914**	447,223

	Notes	2020 $'000	2019 $'000
Movements:			
Opening balance		**447,223**	436,728
Adjustment on adoption of AASB 16 *Leases*		**20,600**	-
Prior year adjustments		**(79)**	1,014
Charged to the consolidated statement of comprehensive income	3	**17,817**	11,669
Cash flow hedges		**(89)**	(10)
Set-off of deferred tax liabilities pursuant to set-off provisions	8	**(38,558)**	(2,178)
Closing balance at 30 June		**446,914**	447,223
Deferred tax liabilities expected to be settled within 12 months		**(16,090)**	(9,310)
Deferred tax liabilities expected to be settled after more than 12 months		**463,004**	456,533

12 Contributed equity

(a) Share capital

	2020 $'000	2019 $'000
Ordinary shares		
Fully paid at the beginning of the year	**3,083,918**	2,602,628
Equity injections	**-**	481,290
Total contributed equity	**3,083,918**	3,083,918

(b) Movements in ordinary share capital

Details	**Number of shares**	**$'000**
Opening balance 1 July 2019	100	3,083,918
Equity injections	-	-
Closing balance 30 June 2020	100	3,083,918
Opening balance 1 July 2018	100	2,602,628
Equity injections	-	481,290
Closing balance 30 June 2019	100	3,083,918

12 Contributed equity (continued)

(c) Ordinary shares

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

Ordinary shares are classified as equity.

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

13 Dividends

	2020 **$'000**	2019 $'000
Dividend declared	**119,358**	141,524
Dividend paid	**141,524**	113,461

A dividend of 1,193,577 dollars per share (2019: 1,415,244) was declared by the Board for the year ended 30 June 2020. All dividends declared / paid were unfranked.

Notes to the consolidated statement of cash flows

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

	2020	2019
	$'000	$'000
Profit for the year	**119,358**	141,524
Depreciation and amortisation	**399,122**	386,219
Losses on sale of non-current assets	**10,357**	22,934
Unrealised (gain) / loss on derivatives	**(36)**	51
Impairment of trade receivables	**2,814**	3
Inventory obsolescence	**891**	2,003
Change in operating assets and liabilities:		
(Increase) / decrease in trade debtors	**12,313**	(6,025)
(Increase) in inventories	**(20,429)**	(12,661)
Decrease in other operating assets	**21,863**	709
(Decrease) in trade creditors	**(28,093)**	(1,700)
Increase in other liabilities	**11,373**	60,019
(Decrease) in other provisions	**(979)**	(3,164)
Net cash inflow from operating activities	**528,554**	589,912

15 Reconciliation of liabilities arising from financing activities

	Borrowings	**Leases**	**Total**
	$'000	**$'000**	**$'000**
At 1 July 2019	3,426,448	-	3,426,448
Adjustment on adoption of AASB 16 *Leases*	-	75,475	75,475
	3,426,448	75,475	3,501,923
Cash flows	203,552	(10,276)	193,276
Non-cash lease swaps	-	(762)	(762)
Acquisitions - finance leases	-	10,017	10,017
Revaluations - finance leases	-	32,165	32,165
Release - finance leases	-	(1,669)	(1,669)
At 30 June 2020	3,630,000	104,950	3,734,950
At 1 July 2018	3,380,000	-	3,380,000
Cash flows	46,448	-	46,448
Non-cash lease swaps	-	-	-
Acquisitions - finance leases	-	-	-
Revaluations - finance leases	-	-	-
Release - finance leases	-	-	-
At 30 June 2019	3,426,448	-	3,426,448

Risk

16 Financial risk management

(a) Financial instruments categories

Financial instruments are categorised into one of three measurement bases - amortised cost (AC), fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

Financial assets and financial liabilities are recognised in the consolidated balance sheet when the group becomes party to the contractual provisions of the financial instrument. The group has the following categories of financial assets and financial liabilities:

	2020 $'000	2019 $'000
Financial assets		
Financial assets at FVTPL		
Cash and cash equivalents	**21,428**	3,446
Trade and other receivables	**38,979**	51,174
Financial assets at FVOCI		
Derivative assets	**63**	294
Total financial assets	**60,470**	54,914
Financial liabilities		
Financial liabilities at FVTPL		
Trade and other payables	**682,315**	647,596
Financial liabilities at AC		
Borrowings	**3,630,000**	3,426,448
Lease liabilities	**104,950**	-
Financial liabilities at FVOCI		
Derivative liabilities	**51**	20
Total financial liabilities	**4,417,316**	4,074,064

(b) Risks arising from financial instruments

The group's activities expose it to a variety of financial risks including market risk, credit risk and liquidity risk.

Financial risk management is carried out by the group under policies approved by the Board of Directors (the Board).

The carrying amounts of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

(i) Market risk

Foreign exchange risk

The group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar (USD), the Euro (EUR) and the Japanese Yen (JPY).

The group's exposure to foreign exchange risk at reporting date was as follows:

	30 June 2020			30 June 2019		
	USD $'000	**EUR €'000**	**JPY ¥'000**	USD $'000	EUR €'000	JPY ¥'000
Cash and cash equivalents	**224**	**123**	**37,509**	189	88	36,171
Forward exchange contracts (qualifying for hedge accounting)	**1,192**	**1,790**	**-**	1,105	4,013	-
Net exposure	**1,416**	**1,913**	**37,509**	1,294	4,101	36,171

The group uses derivative financial instruments such as foreign exchange contracts to hedge risk exposures. The derivative financial assets and liabilities held by the group have been classified as level 2 on the fair value hierarchy as values are indirectly derived from market indices. Trading for profit is strictly prohibited.

16 Financial risk management (continued)

(b) Risks arising from financial instruments (continued)

The group's foreign exchange risk management policy dictates the level of hedging to be undertaken within the Board approved limits.

Derivatives are recognised at fair value. The group applies hedge accounting to transactions which are highly probable.

Interest rate risk

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

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

Financial liabilities at amortised cost

The fair value of borrowings is provided from the QTC. Fair value is calculated using the market value of the underlying debt portfolio, or in the case of fixed rate loans on a discounted cash flow basis. The carrying amounts and fair values of borrowings at reporting date are:

	2020		2019	
	Carrying amount $'000	**Fair value $'000**	Carrying amount $'000	Fair value $'000
Non-traded financial liabilities				
Current lease liabilities (unsecured)	**12,334**	**12,334**	-	-
Non-current lease liabilities (unsecured)	**92,616**	**92,616**	-	-
Current borrowings (unsecured)	**-**	**-**	46,448	46,448
Non-current borrowings (unsecured)	**3,630,000**	**4,138,068**	3,380,000	3,841,877
	3,734,950	**4,243,018**	3,426,448	3,888,325
Weighted average interest rate	**5.0%**		5.5%	

The carrying amount of current borrowings in the prior year of $46.4 million represents the drawdown of funds from the working capital facility with QTC. In the current period the working capital facility was in credit to the amount of $18.6 million and is included in cash and cash equivalents.

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

		Interest rate risk			
		-1%		**+1%**	
30 June 2020	**Carrying amount $'000**	**Profit $'000**	**Equity $'000**	**Profit $'000**	**Equity $'000**
Client Specific Debt Pool	3,630,000	3,175	3,175	(2,985)	(2,985)
Total increase / (decrease)		3,175	3,175	(2,985)	(2,985)
30 June 2019					
Client Specific Debt Pool	3,380,000	2,866	2,866	(2,649)	(2,649)
Total increase / (decrease)		2,866	2,866	(2,649)	(2,649)

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

16 Financial risk management (continued)

(b) Risks arising from financial instruments (continued)

The short-term borrowing arrangements with QTC are interest bearing. The borrowing arrangements are subject to annual review.

Borrowing costs which are directly attributable to the construction of material qualifying assets are recognised as part of the cost of the asset. Qualifying assets are assets not funded from other sources with a cost of more than $1.0 million and which take a substantial period of time to prepare for intended use or sale. The rate used to determine the amount of borrowing cost to be capitalised is the QTC interest rate applicable to the group's outstanding borrowings during the year, in this case 5.00% (2019: 5.53%). During the year, interest costs of $17.5 million were capitalised (2019: $13.5 million).

(ii) Credit risk

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

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

Derivative counterparties and cash transactions are limited to high credit quality financial institutions and are approved by the Board. The group has policies that limit the amount of credit exposure to any one financial institution.

The group utilises a working capital facility with Queensland Treasury Corporation (QTC), investing any surplus daily. QTC has a rating of AA+, therefore the credit risk is minimal unless the ratings decrease significantly.

The group does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the group, other than amounts owing by the State of Queensland.

(iii) Liquidity risk

Liquidity risk management within the group ensures sufficient cash to meet short-term and long-term financial commitments.

Financing arrangements

The amount of undrawn working capital facilities with QTC available at reporting date is $150.0 million (2019: $103.6 million).

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

Borrowings are not secured.

Maturity analysis

The amounts disclosed in the maturity table below are the contractual undiscounted cash flows.

QTC borrowings are interest only with no fixed repayment date for the principal component. For the purposes of completing the maturity analysis, the principal component of this loan has been included in the over five years time band with no interest payment assumed in this time band.

16 Financial risk management (continued)

(b) Risks arising from financial instruments (continued)

30 June 2020	Less than 1 year $'000	Between 1 and 5 years $'000	Over 5 years $'000	Total contractual cash flows $'000
Non-derivatives				
Non-interest bearing*	512,951	29,753	-	542,704
Variable rate	20,253	-	-	20,253
Duration based	139,808	558,599	3,630,000	4,328,407
Total non-derivatives	673,012	588,352	3,630,000	4,891,364
30 June 2019				
Non-derivatives				
Non-interest bearing*	461,048	23,793	-	484,841
Variable rate	67,679	-	-	67,679
Duration based	147,188	586,498	3,380,000	4,113,686
Total non-derivatives	675,915	610,291	3,380,000	4,666,206

*The maturity analysis of lease liabilities is disclosed separately. Refer to note 7(a)(v).

17 Capital risk management

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

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

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

The group's gearing ratios are as follows:

	2020 $'000	2019 $'000
Total borrowings	**3,835,929**	3,609,136
Less: cash and cash equivalents	**(21,428)**	(3,446)
Net debt	**3,814,501**	3,605,690
Total equity	**3,219,481**	3,226,539
Total capital	**7,033,982**	6,832,229
Gearing ratio	**54%**	53%

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

18 Correction of errors and revision of estimates

There have been no corrections of errors in the current reporting period.

There were no material revisions of estimates during the current reporting period.

Unrecognised items

19 Contingencies

Contingencies comprise guarantees either held or issued by the group and assets and liabilities not qualifying for recognition at reporting date. A majority of the guarantees held relate to performance guarantees on construction contracts provided by third parties.

The group had contingencies at reporting date in respect of:

(a) Contingent assets

	2020 Fair value $'000	2019 Fair value $'000
Non-qualifying assets	**13,676**	5,025
Third party guarantees	**81,000**	81,000
Bank guarantees	**124,411**	125,623
Insurance company guarantees	**830**	2,230
	219,917	213,878

(b) Contingent liabilities

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

	2020 Fair value $'000	2019 Fair value $'000
Non-qualifying liabilities	**38,119**	5,063
Bank guarantees	**26,298**	26,294
	64,417	31,357

Litigation

A number of common law claims are pending against the group. Provisions are taken up for some of these exposures based on the Board's determination and are included as such in note 10.

20 Commitments

The future commitments of the group (excluding GST) at reporting date were as follows:

(a) Commitments payable

	2020		2019	
	Capital $'000	**Lease* $'000**	Capital $'000	Lease $'000
Within one year	**105,770**	**-**	131,173	12,443
Later than one year but not later than five years	**246,680**	**-**	247,344	17,168
Later than five years	**-**	**-**	-	12,472
	352,450	**-**	378,517	42,083

* Prior to the current reporting period, leases of property, plant and equipment were classified as operating leases. From 1 July 2019, the group has recognised right-of-use assets and corresponding liabilities for these leases, except for short-term and low-value leases, at the date at which the leased asset is available for use by the group.

20 Commitments (continued)

(b) Commitments receivable

	2020 Lease $'000	2019 Lease $'000
Within one year	**3,265**	7,912
Later than one year but not later than five years	**10,720**	13,769
Later than five years	**23,062**	27,029
	37,047	48,710

The prior period lease receivable commitments have been restated due to the removal of a duplication of a lease contract.

21 Events occurring after the reporting period

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

Other items

22 Key management personnel disclosures

(a) Responsible Ministers

Ministerial remuneration entitlements are outlined in the Legislative Assembly of Queensland's Members' Remuneration Handbook. The group does not bear any cost of remuneration of Ministers. The majority of Ministerial entitlements are paid by the Legislative Assembly, with the remaining entitlements being provided by Ministerial Services Branch within the Department of the Premier and Cabinet.

The responsible Ministers of Queensland Rail and its subsidiaries during the year ended 30 June 2020 were:

- C Dick MP
  Treasurer and Minister for Infrastructure and Planning
  (appointed Treasurer 11 May 2020)
- M Bailey MP
  Minister for Transport and Main Roads
- J Trad MP
  Deputy Premier, Treasurer and Minister for Aboriginal and Torres Strait Islander Partnerships
  (ceased 10 May 2020)

(b) Directors and specified executives

Compensation and other terms of employment for the specified executives are formalised in service agreements.

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

	2020 $'000	2019* $'000
Short-term benefits	**4,353**	4,217
Post-employment benefits	**487**	491
Long-term benefits	**-**	61
	4,840	4,769

22 Key management personnel disclosures (continued)

(b) Directors and specified executives (continued)

* The prior year aggregate includes all compensation provided to individuals who held a key management personnel role, however, the remuneration tables for directors and specified executives only includes information for individuals holding key management personnel roles during the current reporting period.

Short-term benefits includes cash salary, annual leave paid, fees and non-monetary benefits. Non-monetary benefits represent the value of Exempt and Reportable Fringe Benefits for the respective Fringe Benefits Tax year.

(c) Key management personnel compensation

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

2020		**Short-term benefits**	**Post-employment benefits**	
Directors		**Director fees and allowances $'000**	**Super-annuation $'000**	**Total $'000**
D Marchant AM Reappointment date: 1 October 2018 Reappointment term: 3 years	Chair	132	13	145
S Cantwell* Reappointment date: 1 October 2019 Reappointment term: 3 years	Director	46	4	50
R Peters Reappointment date: 1 October 2019 Reappointment term: 3 years	Director	46	4	50
H Watson Appointment date: 6 June 2018 Appointment term: 2 years 3 months	Director	46	4	50
Total		270	25	295

* This director did not receive monetary benefits directly. Payments were made to the entity, of which he was a director, on his behalf.

2019		Short-term benefits	Post-employment benefits	
Directors		Director fees and allowances $'000	Super-annuation $'000	Total $'000
D Marchant AM	Chair	105	10	115
S Cantwell	Director	46	4	50
R Peters	Director	45	4	49
H Watson	Director	45	4	49

J Benstead is appointed as Managing Director of On Track Insurance Pty Ltd, with no set appointment term. As an employee of Queensland Rail, J Benstead did not receive remuneration in his capacity as director of On Track Insurance Pty Ltd.

22 Key management personnel disclosures (continued)

(c) Key management personnel compensation (continued)

N Jones is appointed as Director of On Track Insurance Pty Ltd, with no set appointment term. As an employee of former parent company, Aurizon Operations Limited (formerly QR National Limited), N Jones did not receive remuneration in his capacity as director of On Track Insurance Pty Ltd.

The above directors' fees are amounts recharged from Queensland Rail in accordance with the Managed Services Agreement. The amounts were incurred by Queensland Rail on behalf of the company and are also disclosed in the Key Management Personnel note of the Queensland Rail financial statements.

Directors' remuneration and terms of appointment are set by responsible Ministers. Directors' remuneration is subsequently reviewed on a periodic basis by responsible Ministers.

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

(ii) Specified executives of the company

2020	**Short-term benefits**		**Post-employment benefits**	
Specified executives	**Cash salary and fees $'000**	**Non-monetary benefits $'000**	**Super-annuation $'000**	**Total $'000**
N Easy Chief Executive Officer Appointment date: 3 April 2017 Appointment term: 5 years	727	5	93	825
N Backer* Executive General Manager Citytrain (from 30 September 2019 until 15 December 2019) Acting Executive General Manager Citytrain (from 15 July 2019 until 29 September 2019)	173	2	21	196
J Benstead Head of Regional Appointment date: 5 May 2020 Acting Head of Regional (from 16 December 2019 until 4 May 2020) Acting Chief Financial Officer and Executive General Manager Commercial & Strategy (until 21 August 2019)	296	3	35	334
S Cornish* Group Executive Safety, Risk & Assurance (from 16 December 2019) Executive General Manager Safety, Risk & Assurance (until 15 December 2019)	387	5	49	441
C Gregg+ Group Executive Strategy, Planning and Transformation (from 17 December 2019 until 4 May 2020)	-	-	-	-
R Holloway* Group Executive Major Projects Integration (from 16 December 2019) Executive General Manager Projects (from 15 July 2019 until 15 December 2019)	449	5	57	511
A MacDonald* Group Executive Strategy, Planning and Transformation Appointment date: 5 May 2020	62	1	8	71

22 Key management personnel disclosures (continued)

(c) Key management personnel compensation (continued)

2020	Short-term benefits		Post-employment benefits	
Specified executives	**Cash salary and fees $'000**	**Non-monetary benefits $'000**	**Super-annuation $'000**	**Total $'000**
R McAlpine Acting Executive General Manager Projects (until 14 July 2019)	15	-	2	17
R Munn* Group Executive People & Culture (from 16 December 2019) Executive General Manager People and Culture (until 15 December 2019)	446	5	57	508
S Riedel Head of SEQ Appointment date: 5 May 2020 Acting Head of SEQ (From 16 December 2019 until 4 May 2020) Executive General Manager Network (until 15 December 2019)	581	5	25	611
N Roach* Group Executive Customer & Corporate Affairs (from 16 December 2019) Executive General Manager Customer Service and Innovation (until 15 December 2019)	406	5	52	463
M Ryan* Executive General Manager Travel and Tourism (until 15 December 2019)	153	2	20	175
B Sharp* Acting Executive General Manager Citytrain (until 14 July 2019)	13	-	1	14
K Stapleton* Chief Financial Officer and Group Executive Finance & Corporate Services (from 16 December 2019) Chief Financial Officer and Executive General Manager Commercial & Strategy (from 22 August 2019 until 15 December 2019)	333	4	42	379
Total	4,041	42	462	4,545

* These specified executives are tenured and have no expiry date.
+ This officer did not receive monetary benefits directly. Payments made to the company in which this officer is a director is disclosed in note 22(d).
These specified executives are not eligible for Performance Payments.
In 2019 the Queensland Rail Limited Board made the decision to remove performance payments from new and existing contracts. As a result, a one-off 3% increase to base salaries was applied to offset the removal of the ongoing performance payment for the Chief Executive and three Senior Executives that were eligible for performance payments at that time. This is referred to in note 22(c)(iii).
During the current period, the Board approved changes to the group's business structure including senior executive positions and titles commencing from 16 December 2019.

22 Key management personnel disclosures (continued)

(c) Key management personnel compensation (continued)

2019	Short-term benefits		Post-employment benefits	
Specified executives	Cash salary and fees $'000	Non-monetary benefits $'000	Super-annuation $'000	Total $'000
N Easy Chief Executive Officer	686	4	88	778
J Benstead Acting Chief Financial Officer and Executive General Manager Commercial & Strategy	364	4	42	410
S Cornish Executive General Manager Safety, Risk & Assurance	364	4	46	414
R McAlpine Acting Executive General Manager Projects	395	4	50	449
R Munn Executive General Manager People and Culture	94	1	12	107
S Riedel Executive General Manager Network	137	1	17	155
N Roach Executive General Manager Customer Service and Innovation	381	4	49	434
M Ryan Executive General Manager Travel and Tourism	313	4	40	357
B Sharp Acting Executive General Manager Citytrain	25	-	2	27

The above executives' remuneration are amounts recharged from Queensland Rail in accordance with the Managed Services Agreement. The amounts were incurred by Queensland Rail on behalf of the company and are also disclosed in the Key Management Personnel note of the Queensland Rail financial statements.

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

Termination of the employment of an executive can be made by Queensland Rail to the specified executive either with notice, without notice or due to the incapacity of the specified executive. The formal policy concerning the termination of employment of Queensland Rail chief and senior executives is the *Policy for Government Owned Corporation Chief and Senior Executive Employment Arrangements v 2.0*. This policy was issued by the Government in the 2014/15 period and is applicable to arrangements issued from this period.

Chief Executive provisions

The employment of the Chief Executive may be terminated by the Board at any time in accordance with section 30(3) of the *Queensland Rail Transit Authority Act 2013*.

The employment of the Chief Executive may also be terminated by either party at any time giving the other party 3 months written notice of termination. When such termination occurs, the Chief Executive is entitled to the following:

- any accrued leave; and
- salary for the balance of the notice period (if Queensland Rail elects to make payment in lieu of the notice period).

22 Key management personnel disclosures (continued)

(c) Key management personnel compensation (continued)

No other termination or compensation payments are payable to the Chief Executive.

The employment of the Chief Executive may be terminated by Queensland Rail immediately, and without compensation, if the Chief Executive engages in misconduct or other unethical behaviour.

Senior Executive provisions

Under the *Policy for Government Owned Corporation Chief and Senior Executive Employment Arrangements v 2.0*, all new appointments to senior executives are on an ongoing (tenured) basis with no specific end date. Termination by notice can be made by the specified executive or Queensland Rail at any time by either party giving to the other 1 month written notice. When such termination occurs, specified executives that are tenured are entitled to the following:

- any accrued leave;
- salary for the balance of the notice period (if Queensland Rail elects to make payment in lieu of the notice period); and
- if the termination is by Queensland Rail in circumstances other than serious misconduct, a termination payment of 3 months' salary.

Queensland Rail reviews the total fixed remuneration of eligible employees on 1 July each year. Senior Executives' individual remuneration reviews require Board approval under the *Policy for Government Owned Corporation Chief and Senior Executive Employment Arrangements v 2.0*. Under these provisions, the Board has the discretion to approve annual total fixed remuneration increases in accordance with annual performance reviews.

The Chief and Senior Executives participate in the Queensland Rail performance management process based on quarterly and annual performance reviews. Annual performance results of the Executives are assessed and calibrated by the Chief Executive Officer and Executive General Manager People and Culture. The Board is responsible for the assessment of the Chief Executive Officer's performance.

(iii) Performance payments

As at 1 July 2019, there are no Chief or Senior Executive positions that are eligible for Performance Payments.

On 28 June 2019, the Queensland Rail Board resolved that no new employee appointments (whether externally recruited or internally promoted) would include eligibility to participate in the Performance Payment Scheme. The Chief Executive and three Senior Executives that were eligible for performance payments at that time, subsequently signed new contracts removing performance payment eligibility effective 1 July 2019. A one-off 3% increase to base salaries back-dated to 1 July 2019 was paid to the Chief Executive and three Senior Executives in the current period.

In addition, on 27 September 2019, the Queensland Rail Board approved the removal of the Performance Payment Scheme from 2019/20 for all eligible employees (395 employees) with a one-off 3% increase to base salaries back-dated to 1 July 2019 for those employees who returned contracts prior to 31 December 2019. At that time both the *Performance Payment Policy - Eligible Employees (MD-12-150)* and *Performance Payment Standard (MD-11-6978)* were updated to confirm that only a residual Performance Payment Scheme would operate as a grandfathered arrangement.

The residual Performance Payment framework consists of the following key aspects:

- Organisational Key Performance Indicators (KPIs) are aligned to Operational Plan performance targets including On Time Running (OTR), Reliability - Citytrain, Signals Passed at Danger, Customer injuries, Customer Satisfaction - Citytrain and Customer Satisfaction - Traveltrain. The group must achieve the threshold for all KPIs where a Transport Services Contract (TSC) abatement applies before any performance payment is considered and the group must meet the enterprise wide organisational KPIs (as per measurement determined by the Board).
- The group's businesses and functions must meet the Functional KPIs (as per measurement determined by the Board).
- Individual KPIs set by the employee's manager and approved by the Chief Executive Officer on the recommendation of the relevant executive member.
- KPI results are reviewed by the Board and the Chief Executive Officer on an annual basis to ensure payments are aligned with the achievement of individual and organisational performance objectives. Individual performance of eligible employees must be assessed at a level above "meets expectations", for the consistent demonstration of the group's Values; and
- Board and Chief Executive Officer discretion is reserved in the payment against the scheme based on consideration of performance as well as community and shareholder expectations.

22 Key management personnel disclosures (continued)

(c) Key management personnel compensation (continued)

There remain 12 specified award employees and 1 employee currently on Enhanced Remuneration Package eligible for performance based, at risk, incentive bonus compensation.

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

During the current and prior reporting period, no performance bonus compensation was paid to key management personnel. At the end of the current period, no performance based compensation to key management personnel was accrued for.

(d) Transactions with key management personnel

During the current and prior reporting periods, S Cornish, specified executive of Queensland Rail Limited from 2 July 2018, was an Industry Director at Rail Industry Safety and Standards Board (RISSB). Queensland Rail Limited paid corporate membership and conference fees to RISSB during these periods.

During the current reporting period, C Gregg, specified executive of Queensland Rail Limited from 17 December 2019 until 4 May 2020, was a director of the company Tracklogic Pty Ltd that provided consultancy services to Queensland Rail Limited.

During the current and prior reporting periods, S Riedel, specified executive of Queensland Rail Limited, was a director of Move Bank. The group provided rental accommodation to Move Bank during these periods. During the current period, the nephew of S Riedel provided electrical works to the group through his company South East Electrical and Airconditioning.

During the current and prior reporting periods, N Easy, specified executive of Queensland Rail Limited, was a director of Australasian Railway Association and a director of TrackSAFE Foundation. Queensland Rail Limited paid corporate membership and conference fees to Australian Railway Association and a contribution to TrackSAFE Foundation during these periods.

During the prior reporting period, R Peters, director of Queensland Rail Limited, was a director for South East Queensland in AECOM Australia Pty Ltd (AECOM). Queensland Rail Limited engaged AECOM for professional services and provided rental accommodation to AECOM during the prior period.

During the current and prior reporting periods, D Marchant, director of Queensland Rail Limited, was a director of Airservices Australia. Queensland Rail Limited provided telecommunication services to this organisation during these periods.

All figures displayed below are exclusive of GST.

	2020 $'000	2019 $'000
Corporate membership and conferences - Rail Industry Safety and Standards Board	**291**	271
Consultancy fees - Tracklogic Pty Ltd	**226**	-
Electrical works - South East Electrical and Airconditioning	**153**	-
Corporate membership and conferences - Australasian Railway Association	**120**	92
Contribution - TrackSAFE Foundation	**60**	60
Professional services - AECOM Australia Pty Ltd	**-**	318
Rental revenue - Move Bank	**(121)**	(36)
Telecommunications revenue - Airservices Australia	**(64)**	(61)
Rental revenue - AECOM Australia Pty Ltd	**-**	(4)
	665	640

23 Related party transactions

(a) Transactions with related parties

The following transactions occurred with related parties:

	2020 $'000	2019 $'000
Purchase of goods and services from Queensland Rail	**1,032,404**	968,240
Dividend payable to Queensland Rail	**119,358**	141,524
Payables to Queensland Rail - current	**327,275**	299,591
Payables to Queensland Rail - non-current	**29,753**	23,793

(b) Loans from / (to) related parties

	2020 $'000	2019 $'000
Loans from / (to) parent		
Beginning of the year	**12,836**	(9,923)
Loans advanced	**53,886**	61,202
Loans repayments made	**(80,424)**	(38,443)
End of year	**(13,702)**	12,836

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

The company is limited by shares with all shares held by Queensland Rail. Queensland Rail is owned by the Queensland State Government. All material related party transactions are negotiated under commercial terms.

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

	Notes	2020 $'000	2019 $'000	Nature of transaction
Revenue from continuing operations	1	**1,846,439**	1,840,739	Transport Service Contract, government concessions and sales
Supplies and other services		**125,535**	43,654	Consumables
Employee benefits expense		**4**	82	Payroll tax
Other expenses		**4,912**	3,289	Land tax and audit fees
Finance income		**-**	203	Interest revenue
Finance expenses	2	**177,626**	187,289	Interest and financing costs
Income tax expense	3	**51,199**	60,284	Income tax
Cash and cash equivalents		**18,628**	-	Short-term investments
Trade and other receivables		**7,010**	13,987	Transport Service Contract and other accounts receivables
Trade and other payables	9	**72,167**	44,161	Interest, capital works, consumables and payroll tax payables
Current borrowings	16	**-**	46,448	Short-term borrowings
Other current liabilities		**752**	13,032	Asset funding and other income in advance
Non-current borrowings	16	**3,630,000**	3,380,000	Long-term borrowings
Other non-current liabilities		**10,719**	10,568	Asset funding in advance
Contributed equity		**-**	481,290	Equity transfer in of assets

24 Subsidiary

The consolidated financial statements incorporate the assets and liabilities of the subsidiary of Queensland Rail Limited at reporting date and the results of the subsidiary for the year then ended.

Name of entity	Country of incorporation	Class of shares	Equity holding 2020 %	2019 %
On Track Insurance Pty Ltd	Australia	Ordinary	**100**	100

The principal activities of On Track Insurance Pty Ltd are the provision of insurance coverage for all claims relating to events for both former parent, Aurizon Operations Limited (formerly QR National Limited) and Queensland Rail Limited up until 30 June 2010.

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

Non-current inter-company loans may not be demanded by the other entity and do not become payable other than through settlement of obligations associated with the loans or one of the entities exits the wholly-owned group.

The Managed Services Agreement between Queensland Rail and its subsidiary, Queensland Rail Limited, permits all inter-company balances between both entities to be legally offset and settled on a net basis at the end of each reporting period.

Accounting policies have been adopted consistently across the group.

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

25 Remuneration of auditors

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

	2020 $'000	2019 $'000
Queensland Audit Office		
Audit of the financial statements	**448**	389
	448	389

26 Superannuation expenses

	2020 $'000	2019 $'000
Defined benefit superannuation expense*	**14,640**	14,986
Defined contribution superannuation expense*	**71,032**	63,140
	85,672	78,126

* Forms part of reimbursement of employee costs.

27 Climate change

The group is aware of the Queensland Government's Climate Response, inclusive of the Queensland Government's Climate Transition Strategy and Climate Adaptation Strategy. The group's Energy & Emissions Strategy, which is progressively being implemented, recognises and seeks to align with the commitments of the Transition Strategy specifically. The group has a broad understanding of the key climate change hazards relevant to its operations, in particular those that may impact assets, and a formal risk based framework is currently under consideration to embed climate change matters.

The group has not identified any material climate related risks relevant to the financial report at the reporting date.

No adjustments to the carrying value of recorded assets or other adjustments to the amounts recorded in the financial statements were recognised during the financial year.

28 Parent entity financial information

The financial information for the parent entity, Queensland Rail Limited, has been prepared on the same basis as the consolidated financial statements, except that investments in subsidiaries are accounted for at cost in the financial statements of Queensland Rail Limited.

(a) Summary financial information

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

Balance sheet	**2020 $'000**	2019 $'000
Current assets	**185,811**	168,331
Non-current assets	**7,937,713**	7,650,690
Total assets	**8,123,524**	7,819,021
Current liabilities	**676,201**	699,987
Non-current liabilities	**4,235,591**	3,900,244
Total liabilities	**4,911,792**	4,600,231
Net assets	**3,211,732**	3,218,790
Contributed equity	**3,078,114**	3,078,114
Hedging reserves	**138**	347
Retained earnings	**133,480**	140,329
Total equity	**3,211,732**	3,218,790
Profit or loss for the year	**119,358**	141,524
Total comprehensive income	**119,149**	141,501

(b) Guarantees entered into by the parent entity

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

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

(c) Contingent liabilities of the parent entity

Issues relating to common law claims and product warranties are dealt with as they arise. There were no material contingent liabilities requiring disclosures in the financial statements except as outlined in note 19. All provisions except provision for insurance claims relate to the parent entity.

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

At reporting date, the parent entity had contractual commitments. For information about these commitments please see note 20. All commitments outlined in this note relate to the parent entity.

29 Summary of other significant accounting policies

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

Queensland Rail Limited is a for-profit corporation limited by shares, incorporated and domiciled in Australia and owned by Queensland Rail. Queensland Rail Limited is a wholly owned subsidiary of Queensland Rail. Queensland Rail is required to carry out its functions as a commercial enterprise, as specified in section 10 of the *Queensland Rail Transit Authority Act 2013*. Queensland Rail may carry out those functions directly, or indirectly via its subsidiary. These financial statements are denominated in Australian dollars.

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

These financial statements were approved for issue by the directors on 27 August 2020. The directors have the power to amend and reissue the financial statements.

(a) Basis of preparation

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

(i) Compliance with Australian Financial Reporting Standards

The consolidated financial statements of the group comply with the Australian Accounting Standards as issued by the Australian Accounting Standards Board (AASB).

(ii) New and amended standards adopted by the group

The group has applied the following standards for the first time for their annual reporting year commencing 1 July 2019:

- AASB 16 *Leases.*

The group has adopted AASB 16 *Leases* retrospectively from 1 July 2019 but has not restated comparatives for the prior period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

On adoption of AASB 16, the group recognised right-of-use assets and lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of AASB 117 Leases. Refer to note 7 for policy details.

(iii) Early adoption of standards

Standards and amendments that are available for early adoption for the current financial year beginning 1 July 2019 were not early adopted and are not expected to have a material impact on the accounts of the group in future periods.

(iv) Historical cost convention

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

29 Summary of other significant accounting policies (continued)

(a) Basis of preparation (continued)

(v) Going concern

The financial report for the group is prepared on a going concern basis. Current liabilities exceed current assets by $495.9 million. The group has access to short-term borrowing facilities up to the amount of $150.0 million of which $150.0 million are undrawn as at reporting date (refer note 16(b)(iii)). The group has also secured approval from the Queensland Government to source additional long-term borrowings in the 2020/21 financial year up to the amount of $470.0 million to fund operational, capital and dividend payments throughout that year and to increase the short-term borrowings facilities by $100.0 million taking the total to $250.0 million. In addition revenue through the Rail Transport Service Contract, adequate interest coverage and a low gearing ratio provides further assurance of the group's status as a going concern.

(b) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of these transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

(c) Rounding of amounts / comparative restatements

The company is of a kind referred to in the ASIC Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

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

(d) Goods and Services Tax (GST)

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

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

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

Queensland Rail, parent entity, and its subsidiaries are grouped for GST purposes. This means that any inter-company transactions within the Queensland Rail group do not attract GST. Queensland Rail is the representative member of the GST group and is responsible for reporting all GST liabilities and credits on behalf of the group.

(e) Trade and other receivables

Trade and other receivables are initially recognised at the transaction price and are subsequently measured at and classified as FVTPL. Trade receivables generally have standard payment terms of 7 to 30 days. The group applies the simplified approach to providing for expected credit losses prescribed by AASB 9, which requires the use of the lifetime expected loss provision for all trade receivables.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the debt. Trade receivables have not had a significant increase in credit risk since they were originated.

29 Summary of other significant accounting policies (continued)

(e) Trade and other receivables (continued)

Other receivables are classified as current assets unless collection is not expected within the 12 months from the reporting date.

(f) Reimbursement of employee costs

Queensland Rail Limited does not have any employees. The reimbursement of Queensland Rail employee costs disclosed in the consolidated statement of comprehensive income are amounts recharged by Queensland Rail in accordance with the Managed Services Agreement and external contractors engaged by Queensland Rail Limited.

(g) Insurance

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

Insurance cover has accordingly been effected for a variety of such risks. Other areas of risk exposure include workers' compensation and is self-insured by the group.

Until 30 June 2010, self-insurance and other underwriting activities were performed by Queensland Rail Limited's wholly-owned subsidiary, On Track Insurance Pty Ltd. On Track Insurance Pty Ltd was transferred from Aurizon Operations Limited (formerly QR National Limited) on 6 October 2010 and will continue to provide cover for claims relating to events up until 30 June 2010 for both Queensland Rail Limited and the Aurizon Operations Limited group.

(h) Environmental regulation

The group is subject to a variety of laws and regulations in the jurisdiction in which it operates or maintains land. Where remediation measures are probable and can be reliably measured, such costs incurred in complying with relevant laws and regulations are accounted for in accordance with the policy in note 10.

(i) Coronavirus (COVID-19) Impact

The group continued to operate through the impact of the COVID-19 pandemic providing services to passengers with the number one priority being the health and safety of customers and employees. In South East Queensland a full timetable was maintained for Citytrain passengers ensuring customers, such as healthcare workers, could travel safely to and from work each day. Long-distance and tourism services were temporarily reduced or suspended and subsequently reinstated gradually with social distancing measures as travel restrictions were eased across the State. The regional freight network continued to operate during this period.

The group worked with the Queensland Government to provide relief arrangements to support businesses as a result of the COVID-19 pandemic. This comprised the waiving of property and advertising rental fees for small to medium businesses and not-for-profits, and the extension of payment terms on existing balances for tour operators and tenants facing financial hardship. The impact of these relief measures included a reduction in travel and tourism revenue and rental revenue along with an increase in the provision for doubtful debts recognised in the final quarter of the current reporting period. Freight services across the State remained strong despite the COVID-19 pandemic and the group’s network access revenue was not impacted.

The reduction in revenue in the current period and the forecast reduction in the next year has not impacted the group’s going concern status as at the end of the reporting period.The impact of the COVID-19 pandemic on future cash flows has not been significant and the group’s assets remain unimpaired at reporting date.

Directors' declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 7 to 48 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

  (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the year ended on that date, and

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

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

D Marchant AM
Chair

Brisbane, Qld
27 August 2020

Queensland Audit Office
Better public services

INDEPENDENT AUDITOR'S REPORT

To the Members of Queensland Rail Limited

Report on the audit of the financial report

Opinion

I have audited the accompanying financial report of Queensland Rail Limited and its controlled entities (the group).

In my opinion, the financial report:

a) gives a true and fair view of the group's financial position as at 30 June 2020, and its financial performance and cash flows for the year then ended

b) complies with the *Corporations Act 2001*, the *Corporations Regulations 2001* and Australian Accounting Standards.

The financial report comprises the consolidated balance sheet as at 30 June 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the consolidated financial statements including summaries of significant accounting policies and other explanatory information, and the directors' declaration.

Basis for opinion

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

I am independent of the group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code and the *Auditor-General Auditing Standards*. I am also independent of the group in accordance with the auditor independence requirements of the *Corporations Act 2001*, and confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key audit matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial report for the current period. I addressed these matters in the context of my audit of the financial report as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

Queensland Audit Office
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Carrying amount of property, plant and equipment ($7.691 billion)

Refer to note 5(a) in the financial report

Key audit matter	How my audit addressed the key audit matter
The reported value of property, plant and equipment represents more than 95 per cent of the total value of reported assets in the balance sheet. The cost method of valuation is used and the following risk factors have been considered during the audit: • Costs transferred from assets under construction in 2020 of $463.1 million (2019: $460.2 million) to the fixed asset register following project completion. • Increased estimated project costs accrued as assets under construction in 2020 of $385.0 million (2019: $448.1 million). The calculation of accruals involves a high degree of management estimation.	My procedures included but were not limited to: • Testing the design and implementation and operating effectiveness of the key controls over asset addition processes. • Evidencing of review of project cost reports by project managers. • Reviewing the completion and certification by responsible officers for operating expense and assets under construction transfer forms. • Testing a sample of assessment and classification of project costs as operating expense or capital at project commencement. • Testing monitoring controls to ensure timely transfer of costs to the fixed asset register. • Reviewing the appropriateness of the accounting treatment for a sample of new, ongoing and completed projects. • Testing a sample of asset under construction costs for multi-year projects to determine whether these costs continue to meet the criteria for an asset recognition under the company's capitalisation policies and Australian Accounting Standards.

Depreciation expense ($373.2 million)

Refer to note 5(a) and 5(d) in the financial report

Key audit matter	How my audit addressed the key audit matter
Depreciation expense is a significant balance that requires management to forecast the useful life of assets and their component parts.	My procedures included but were not limited to: Assessing the useful life estimates of assets and their component parts by: • Reviewing management's annual assessment of useful lives and condition assessments. This represents a comprehensive review of all assets. • For a sample of remaining useful life reviews examining supporting documentation and confirming revised estimates to the fixed asset register. • Checking the consistency of useful lives compared to the prior year. • Comparing useful life assessments recorded in the fixed asset register to the disclosed accounting policy.

Key audit matter	How my audit addressed the key audit matter
	• Reviewing for evidence of asset obsolescence, failure or disposals that could indicate a need to review useful life assumptions. • Reviewing for evidence that the entity will use assets for longer than the useful lives estimated for valuation and depreciation purposes. • For a sample of assets, recalculating depreciation expense. • Evaluating remaining useful life estimates for reasonableness with reference to management's documented assessments, historical disposal rates, condition assessments for older assets, and long-term asset management plans and budgets.

Indicators of impairment of property, plant and equipment

Refer to note 5(e) of the financial report

Key audit matter	How my audit addressed the key audit matter
Management have considered the existence of impairment indicators during 2019-20 and performed an impairment test to ensure that the assets carrying value was greater than its value in use. The impairment assessment is complex and management adopts assumptions in developing inputs used in the discounted cashflow models to calculate an asset's value in use.	My procedures included but were not limited to: • Assessing the adequacy of management's review of the impairment process. • Obtaining an understanding of the methodology used and assessing its design, integrity and appropriateness for the impairment test with reference to common industry practice. • Challenging the reasonableness of key assumptions based on my knowledge of the entity and industry. • Assessing the identification of cash generating units, and input assumptions adopted by management in the value in use model. • Evaluating the reasonableness of management's documented considerations of indicators of impairment against my knowledge of the entity. • Reviewing the accuracy of calculations used in the value in use model. • Reviewing the impairment model to assess the models used and the reasonableness of key assumptions applied in the assessment against my knowledge of the entity and industry. • Reviewing the asset impairment accounting policies disclosures in the financial statements for consistency with Australian Accounting Standards.

Other information

Other information comprises financial and non-financial information (other than the audited financial report).

Those charged with governance are responsible for the other information.

My opinion on the financial report does not cover the other information and accordingly I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial report, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of the company for the financial report

The company's directors are responsible for the preparation of the financial report that gives a true and fair view in accordance with the *Corporations Act 2001*, the *Corporations Regulations 2001* and Australian Accounting Standards, and for such internal control as the company's directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

The company's directors are also responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the group.
- Conclude on the appropriateness of the group's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. I base my conclusions on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the financial report. I am responsible for the direction, supervision and performance of the audit of the group. I remain solely responsible for my audit opinion.

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

From the matters communicated with the company's directors, I determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

28 August 2020

Vaughan Stemmett
as delegate of the Auditor-General

Queensland Audit Office
Brisbane