STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2012

	NOTE	2012 $000	2011 $000
CAPITAL MARKETS OPERATIONS			
Net interest income			
Interest income	4	**9 427 424**	4 294 832
Interest expense	4	**(9 383 618)**	(4 260 112)
		43 806	34 720
Other income			
Fees – management	6	**57 200**	55 512
Fees – professional		**579**	698
Fees – other		**735**	482
Amortisation of cross border lease deferred income		**6 438**	6 438
Lease income		**42 281**	33 294
Gain on sale of property, plant and equipment		**-**	2
		107 233	96 426
Expenses			
Administration expenses	7	**(68 674)**	(42 523)
Depreciation on leased assets		**(27 911)**	(22 097)
Other expenses		**20**	(50)
		(96 565)	(64 670)
Share of associate's net profit		**491**	355
Profit from capital markets operations before income tax		**54 965**	66 831
Income tax expense	8	**(8 056)**	(20 874)
Profit from capital markets operations after income tax		**46 909**	45 957
LONG TERM ASSETS			
Net return from investments in long term assets			
Net change in fair value of unit trusts	5	**2 556 924**	3 144 065
Interest on fixed rate notes		**(2 285 211)**	(1 878 735)
Management fees		**(84 484)**	(71 154)
Profit from long term assets		**187 229**	1 194 176
Total net profit for the year after tax		**234 138**	1 240 133
Total comprehensive income attributable to the owner		**234 138**	1 240 133
Total comprehensive income derived from:			
Capital markets operations	3	**46 909**	**45 957**
Long term assets	3	**187 229**	**1 194 176**
Total comprehensive income		**234 138**	**1 240 133**

The notes on pages 32 to 61 are an integral part of these financial statements.

Note: Throughout these financial statements the capital markets operations and the long term assets operations have been disclosed separately to distinguish between QTC's main central treasury management role and its additional responsibilities following the transfer of the State's superannuation and other long-term assets (refer notes 1 and 3).

BALANCE SHEET
AS AT 30 JUNE 2012

	NOTE	2012 $000	2011 $000
ASSETS			
Capital markets operations			
Cash		**743**	-
Receivables	9	**9 022**	13 233
Financial assets at fair value through profit or loss	10	**17 221 439**	19 673 113
Derivative financial assets	11	**475 056**	195 083
Onlendings	12	**72 289 635**	59 452 522
Property, plant and equipment	13	**286 131**	224 441
Investments accounted for using the equity method	31	**1 377**	975
Intangible assets	14	**5 110**	14 810
Deferred tax asset	8	**2 438**	1 921
		90 290 951	79 576 098
Long term assets			
Financial assets at fair value through profit or loss	10	**29 182 448**	28 248 333
		29 182 448	28 248 333
Total Assets		**119 473 399**	107 824 431
LIABILITIES			
Capital markets operations			
Bank overdraft		**-**	8 834
Payables	15	**106 020**	158 762
Tax liabilities	8	**8 619**	20 631
Derivative financial liabilities	16	**247 589**	160 521
Financial liabilities at fair value through profit or loss			
- Interest bearing liabilities	17	**84 363 431**	73 224 097
- Client deposits	17	**5 077 143**	5 562 013
		89 802 802	79 134 858
Long term assets			
Financial liabilities at amortised cost	18	**31 852 678**	31 105 792
		31 852 678	31 105 792
Total Liabilities		**121 655 480**	110 240 650
Net Assets		**(2 182 081)**	(2 416 219)
EQUITY			
Capital markets operations			
Reserves	19	**187 819**	176 615
Retained surplus		**300 330**	264 625
		488 149	441 240
Long term assets			
Retained deficit		**(2 670 230)**	(2 857 459)
		(2 670 230)	(2 857 459)
Total Equity		**(2 182 081)**	(2 416 219)

The notes on pages 32 to 61 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2012

		CAPITAL MARKETS OPERATIONS			LONG TERM ASSETS	TOTAL
	NOTE	CREDIT RISK RESERVE $000	BASIS RISK RESERVE $000	RETAINED SURPLUS $000	RETAINED SURPLUS $000	EQUITY $000
Balance at 1 July 2010		133 363	62 500	349 420	(4 051 635)	(3 506 352)
Profit for the year		-	-	45 957	1 194 176	1 240 133
Dividend paid		-	-	(150 000)	-	(150 000)
Transfer from/(to) retained surplus	19	12 252	(31 500)	19 248	-	-
Balance at 30 June 2011		145 615	31 000	264 625	(2 857 459)	(2 416 219)
Balance at 1 July 2011		**145 615**	**31 000**	**264 625**	**(2 857 459)**	**(2 416 219)**
Profit for the year		**-**	**-**	**46 909**	**187 229**	**234 138**
Transfer from/(to) retained surplus	19	**15 204**	**(4 000)**	**(11 204)**	**-**	**-**
Balance at 30 June 2012		**160 819**	**27 000**	**300 330**	**(2 670 230)**	**(2 182 081)**

The notes on pages 32 to 61 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2012

	NOTE	2012 $000	2011 $000
CAPITAL MARKETS OPERATIONS			
Cash flows from operating activities			
Interest received from onlendings		**7 601 711**	3 127 131
Interest received from investments		**848 000**	1 372 929
Interest received – other		**43 440**	68 197
Fees received – management		**57 200**	55 590
Fees received – professional		**579**	710
Fees received – other		**696**	761
GST paid to suppliers		**(13 131)**	(7 608)
GST refunds from ATO		**10 818**	12 115
GST paid to ATO		**(5 135)**	(4 220)
GST received from clients		**5 207**	4 383
Interest paid on interest-bearing liabilities		**(4 195 720)**	(3 898 839)
Interest paid on deposits		**(170 683)**	(224 771)
Administration expenses paid		**(53 830)**	(48 293)
Income tax paid		**(20 585)**	(34 003)
Net cash provided by operating activities	20	**4 108 567**	424 082
Cash flows from investing activities			
Proceeds from sale of investments		**74 752 834**	61 533 294
Payments for investments		**(71 843 789)**	(62 641 503)
Net onlendings		**(12 639 382)**	(4 303 857)
Payments for property, plant and equipment		**(91 079)**	(61 989)
Payments for intangibles		**(5 454)**	(7 054)
Proceeds from sale of property, plant and equipment		**-**	2
Dividend received		**89**	52
Net cash used in investing activities		**(9 826 781)**	(5 481 055)
Cash flows from financing activities			
Proceeds from interest-bearing liabilities		**65 942 151**	67 466 329
Repayment of interest-bearing liabilities		**(59 730 111)**	(63 148 668)
Net deposits		**(484 249)**	881 645
Dividend paid		**-**	(150 000)
Net cash provided by financing activities		**5 727 791**	5 049 306
Net decrease in cash held		**9 577**	(7 667)
Cash at 1 July		**(8 834)**	(1 167)
Net cash at 30 June		**743**	(8 834)
LONG TERM ASSETS			
No external cashflow is generated from the long term assets (refer notes 1 and 3).			

The notes on pages 32 to 61 are an integral part of these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

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1 General information

Queensland Treasury Corporation (QTC) is constituted under the *Queensland Treasury Corporation Act 1988* (the Act), with the Under Treasurer designated as the Corporation Sole under section 5 (2) of the Act.

QTC is the State's central financing authority and corporate treasury services provider, with responsibility for providing debt funding, liability management, cash management and financial risk management advice to public sector clients. These services, which form part of QTC's Capital Markets Operations segment, are undertaken on a cost-recovery basis with QTC lending at an interest rate based on its cost of funds and with the benefits/costs of liability and asset management being passed on to its clients being Queensland public sector entities.

The majority of QTC's profits from its Capital Markets Operations are generated as a result of interest earned from the investment of QTC's equity. QTC ensures that in undertaking its Capital Markets activities it has adequate capital to manage its risks.

QTC holds a portfolio of assets which were transferred to QTC by the State Government. These assets are the investments of QTC's Long Term Assets segment and are held to fund superannuation and other long-term obligations of the State such as insurance and long service leave. In return, QTC has issued to the State fixed rate notes which has resulted in the State receiving a fixed rate of return on the notes, while QTC bears the impact of fluctuations in the value and returns on the asset portfolio (refer notes 3 & 5).

The Long Term Asset Advisory Board is responsible for the oversight of the Long Term Assets which do not form part of QTC's day-to-day Capital Markets Operations. The Long Term Assets are held in unit trusts managed by QIC Limited (QIC).

2 Summary of significant accounting policies

(a) Basis of preparation

These general purpose financial statements for the year ended 30 June 2012 have been prepared in accordance with the requirements of the *Financial Accountability Act 2009* and Australian Accounting Standards and Interpretations, adopted by the Australian Accounting Standards Board.

Compliance with International Financial Reporting Standards

QTC's financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board. While QTC is designated as a not-for-profit entity, the Corporation has elected to comply with the requirements of International Financial Reporting Standards (IFRS) as if it is a for-profit entity.

New accounting standards

A number of new and amended accounting standards are mandatory from 1 July 2011. None of these have been deemed to have a material impact on the financial statements or the performance of the Corporation.

Standards and interpretations not yet adopted

Certain new accounting standards have been published that are not mandatory for the current reporting period. The Corporation's assessment of the impact of these standards and interpretations are set out below.

Effective for annual periods beginning on or after 1 January 2013:

- AASB 9 *Financial Instruments*, is expected to replace AASB 139 *Financial Instruments*. The new standard specifies new recognition and measurement requirements for financial assets within the scope of AASB 139. The amendments require financial assets to be measured at fair value through profit or loss unless they meet the criteria for amortised cost measurement. For financial liabilities, AASB 9 has largely adopted the recognition and measurement criteria currently contained in AASB 139. One key difference is in relation to the recognition of "own credit" movements for liabilities measured at fair value. Under the revised standard, any change in fair value attributable to an entity's own credit risk is to be shown in other comprehensive income, not as part of profit or loss. An exemption applies to entities which have offsetting risk profiles which allows QTC to measure both financial assets and financial liabilities at fair value through profit or loss. This significantly reduces recognition or measurement inconsistencies, commonly referred to as accounting mismatches. Therefore this is not expected to change the current practice of measuring changes in fair value movements of QTC bonds through profit or loss.
- AASB 10 *Consolidated Financial Statements* requires a parent to present consolidated financial statements as those of a single economic entity and introduces a single model of control. This is wider than the current definition of control and is based on an entity's exposure to the rights and variability of returns through power to direct the activities of an investee.
- AASB 11 *Joint Arrangements* clarifies all joint arrangements as either joint operations or joint ventures based on the rights and obligations of the arrangement. It requires joint ventures where each party has rights to the net assets of the arrangement to be accounted for using the equity method. This is consistent with QTC's current accounting policy for joint venture entities.
- AASB 12 *Disclosure of Involvement with Other Entities* requires qualitative and quantitative disclosures on an entity's interest in, and judgements applied to subsidiaries, joint arrangements, associates and other structured entities.
- AASB 13 *Fair Value Measurement* replaces the guidance on fair value measurement in existing AASB accounting literature with a single standard. For all assets and liabilities which are measured at fair value, entities are required to disclose how fair value measurement is determined based on the three level hierarchy system currently used for financial assets and financial liabilities.

Other than as noted above, the adoption of various Australian Accounting Standards and Interpretations on issue but not yet effective is not expected to have a material impact on the financial statements of the Corporation. However, the pronouncements may result in changes to how information is currently disclosed.

Basis of measurement

The financial statements are prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

Functional and presentation currency

These financial statements are presented in Australian dollars, which is QTC's functional currency.

Classification of assets and liabilities

The balance sheet is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current.

(b) Investment in joint venture entity

QTC's investment in Local Government Infrastructure Services Pty Ltd is accounted for using the equity method in the financial statements. Under the equity method, the share of the profits or losses of the joint venture is recognised in the statement of comprehensive income, and the share of movement in equity is recognised in the balance sheet. Investments in joint venture entities are carried at the equity accounted amount (refer note 31).

(c) Investments in other companies

Investments in other companies are accounted for at cost (refer note 32). The principal activity of QTC's main investment company, Queensland Treasury Holdings Pty Ltd (QTH), is to act as a corporate vehicle through which the Queensland Government undertakes activities of strategic importance to the State.

Queensland Treasury holds a 60% beneficial interest in QTH. The remaining 40% is held by QTC for and on behalf of the Under Treasurer as Corporation Sole of QTC.

QTC does not have significant influence over the financial and operating policies of QTH and therefore does not apply the equity method of accounting to the investment.

(d) Foreign currency

Foreign currency transactions are initially translated into Australian dollars at the rate of exchange applying at the date of the transaction. At balance date, amounts payable to and by QTC in foreign currencies have been valued using current exchange rates after taking into account interest rates and accrued interest.

Exchange gains/losses are brought to account in the statement of comprehensive income.

(e) Cash

Cash assets include only those funds held at bank and do not include money market deposits.

(f) Financial assets and financial liabilities

Recognition and derecognition

Financial assets and financial liabilities are recognised in the balance sheet when QTC becomes party to the contractual provisions of the financial instrument.

A financial asset is derecognised when the contractual rights to the cash flows from the financial assets expire or are transferred and no longer controlled by QTC.

A financial liability is removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expires.

Measurement

Financial assets and liabilities at fair value through profit or loss are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques.

Fair value is the amount for which an asset could be exchanged or liability settled between knowledgeable, willing parties in an arm's length transaction.

QTC uses mid-market rates as the basis for establishing fair values of quoted financial instruments with offsetting risk positions. In general, the risk characteristics of funds borrowed, together with the financial derivatives used to manage interest rate and foreign currency risks, closely match those of funds onlent. In all other cases, the bid-offer spread is applied where material.

Financial liabilities at amortised cost are measured using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial instrument and allocating the interest income or interest expense over the relevant period. In this way, interest is recognised in the statement of comprehensive income in the period in which it accrues.

Classification

Financial instruments on initial recognition are classified into the following categories:

- Receivables
- Onlendings
- Derivative financial instruments
- Financial assets at fair value through profit or loss
- Financial liabilities at fair value through profit or loss, and
- Financial liabilities at amortised cost.

QTC's accounting policies for significant financial assets and financial liabilities are listed below.

Onlendings

Onlendings, with the exception of loans to cooperative housing societies, are included in the balance sheet at market or fair value which is the redemption value. Loans to cooperative housing societies are based on the balance of each housing society's loans to its members adjusted where necessary for a specific provision for impairment (refer note 2 (v)).

Derivative financial instruments

QTC uses derivative financial instruments to hedge its exposure to interest rate, foreign currency and credit risks as part of asset and liability management activities. In addition they may be used to deliver long term floating rate or long term fixed rate exposure. In accordance with its treasury policy, QTC does not hold or issue derivative financial instruments for speculative purposes.

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for Capital Markets Operations and investments held in unit trusts (Long Term Assets).

- **Financial assets – Capital Markets Operations**
  Financial assets – Capital Markets Operations, include investments in money market deposits, discount securities, semi-government bonds and floating rate notes. Unrealised gains and losses are brought to account in the statement of comprehensive income.
- **Investments in unit trusts – Long Term Assets**
  Investments in unit trusts consist of investments held and managed by QIC and include Australian equities, international equities and other diversified products (refer note 10). These investments are measured at market value based on the hard close unit price quoted by QIC adjusted for fees outstanding on the account and net of any GST recoverable.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include interest-bearing liabilities and deposits. Unrealised gains and losses are brought to account in the statement of comprehensive income.

- **Interest-bearing liabilities**
  Interest-bearing liabilities mainly consist of Australian and overseas bonds. Australian bonds include QTC's domestic, capital indexed and public bonds. Overseas bonds include global bonds and Eurobonds. Global bonds are Australian dollar denominated bonds issued overseas.
- **Client deposits**
  Client deposits are accepted to either the Working Capital Facility (11AM Fund) or the Cash Fund. Income derived from the investment of these deposits accrues to depositors daily. The amount shown in the balance sheet represents the market value of deposits held at balance date.

  Collateral held and securities which are sold under agreements to repurchase are disclosed as deposits.

Financial liabilities at amortised cost

Financial liabilities at amortised cost consist of fixed rate notes issued to the State Government in exchange for a portfolio of assets (Long Term Assets). The fixed rate notes are initially recognised at par value, which equated to the fair value of the financial assets acquired. Deposits and withdrawals can be made from the notes based on changes in the State Government's long-term liabilities. The notes are long-term in nature and have a term of 50 years. Interest on the fixed rate notes is capitalised monthly and the rate is reviewed annually, consistent with the triennial actuarial assessment of the State's defined benefit liability.

(g) Collateral

QTC enters into a range of transactions with counterparties which require the lodgement of collateral subject to agreed market thresholds. Where these thresholds are exceeded, QTC may be required to either pledge assets to, or be entitled to receive pledged assets from, the counterparty to secure these transactions. The assets pledged or received are primarily in the form of cash.

(h) Settlement date accounting

Purchases and sales of financial assets and liabilities at fair value through profit or loss are recognised on settlement date. QTC accounts for any change in the fair value of the asset to be received or the liability issued during the period between the trade date and settlement date in the same way as it accounts for the acquired asset or liability.

(i) Offsetting financial instruments

QTC offsets financial assets and liabilities where there is a legally enforceable right to set off, and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

(j) Repurchase agreements

Securities sold under agreements to repurchase at an agreed price are retained within the financial assets at fair value through profit or loss category while the obligation to repurchase is disclosed as a deposit.

(k) Lease arrangements

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating leases, in which QTC is the lessee, are expensed on a straight line basis over the term of the lease. Leases where QTC has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease inception based on the present value of the minimum lease payments. The finance cost is charged to profit or loss over the lease period (refer note 25).

(l) Lease income

Lease income from operating leases where QTC is the lessor is recognised as income on a straight line basis over the lease term.

(m) Cross border leases – income recognition

The portion of the cross border lease income received which is regarded as an advisory fee for the transaction is recognised on receipt. The balance of income received is deferred and amortised over the term of each lease.

(n) Interest income and interest expense

The recognition of investment income and borrowing costs includes net realised gains/losses from the sale of investments (interest income) and the preredemption of borrowings (interest expense) together with the net unrealised gains/losses arising from holding investments and certain onlendings (interest income) and net unrealised gains/losses from borrowings (interest expense). These unrealised gains/losses are a result of revaluing to market daily.

The majority of onlendings are provided to clients on a pooled basis. Interest costs are allocated to clients based on the daily movement in the market value of the pool.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

(o) Fee income

Management and professional fee income represent income earned from the management of QTC's onlendings and deposits and is recognised on an accrual basis when the service has been provided. Asset and liability management fee income integral to the yield of an originated financial instrument is recognised proportionately over the period the product is provided.

(p) Net change in fair value of investments in unit trusts

Changes in the net market value of investments are recognised in the period in which they occur. The net market value is based on the closing unit redemption price and includes both realised and unrealised movements, net of allowances for costs expected to be incurred in realising these investments. Distributions are reinvested into the trusts.

(q) Profits/losses

Unless otherwise determined by the Governor in Council, the *Queensland Treasury Corporation Act 1988* requires that all profits shall accrue to the benefit of the State Consolidated Fund and all losses shall be the responsibility of the State Consolidated Fund.

(r) Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Costs are recognised where asset values exceed $5,000 and includes expenditure that is directly attributable to the acquisition of the asset. Depreciation is calculated on a straight line basis over the estimated useful life of the assets. Where depreciation relates to plant and equipment held to generate lease revenue, depreciation expenditure has been classified separately in the statement of comprehensive income as depreciation on leased assets. Land is not depreciated.

Depreciation rates for each class of asset are as follows:

ASSET CLASS	DEPRECIATION RATE
Information technology & office equipment	6 – 40%
Plant and machinery	10 – 30%

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each financial year end.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognised.

(s) Intangible assets

Software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives which are between two and five years.

Costs associated with the development of internally generated software are capitalised only when the designated project is technically and commercially feasible and is expected to generate future economic benefits to QTC. The expenditure capitalised comprises all directly attributable costs including some labour costs. All other costs associated with the development of software are expensed as incurred. Following initial recognition of the development expenditure as an asset, the asset is carried at cost less accumulated amortisation and impairment losses. Amortisation of the asset begins when the development is complete and the asset is available for use.

Computer software development costs recognised as assets are amortised on a straight-line basis over the period of expected benefit, which is usually between three and five years.

Impairment

The carrying values of non-financial assets are reviewed at each reporting date or where there is an indication of impairment. Where an asset is no longer expected to provide substantial service potential or there is significant reductions in the capabilities, functions or intended use, the asset is written down to its recoverable amount. For the purpose of impairment testing, assets are grouped by the lowest level of cash-generating unit applicable with impairment losses recorded in the statement of comprehensive income.

(t) Income tax

QTC is exempt from the payment of income tax under section 50-25 of the *Income Tax Assessment Act 1997* (as amended).

QTC makes a payment in lieu of income tax to the Queensland Government's Consolidated Fund. The calculation of the income tax liability is based on the income of certain activities controlled by QTC's Capital Markets Operations. No income tax is payable on the Long Term Assets.

In calculating the payment in lieu of income tax expense, tax effect accounting principles are adopted for income received and expenses paid in relation to the management and administration of clients' borrowings and deposits as well as for advisory services and structured finance transactions. For all other QTC operations on which a payment in lieu of income tax is made, tax effect accounting principles are not applied.

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax liabilities are recognised for all taxable temporary differences arising from prepayments of expenditure of QTC. Deferred income tax assets are recognised for deductible temporary differences arising from accruals of expenditure, employee benefits and depreciation charged on property, plant and equipment.

Deferred tax assets are recognised where it is probable that future taxable income will be available against which the temporary differences can be utilised.

QTC's controlled and jointly controlled entities are defined as State and Territory bodies under section 24AO of the *Income Tax Assessment Act 1936* and as a consequence, are exempt from Commonwealth tax under section 24AM of this Act.

(u) Employee benefits

Employee benefit obligations such as annual leave and long service leave entitlements are measured on an undiscounted basis where the amounts are due to be settled at balance date.

A liability is recognised for short-term bonuses based on the amount expected to be paid where there is a present or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be estimated reliably.

Wages, salaries, annual and long service leave due but unpaid at reporting date are recognised in other creditors and include related on-costs such as payroll tax, worker's compensation premiums and employer superannuation contributions. As sick leave is non-vesting, this is recognised as and when this leave is taken.

Contributions made by QTC to employee contributory superannuation funds (to provide benefits for employees and their dependants on retirement, disability or death) are charged to the statement of comprehensive income. QTC is not responsible for any shortfalls.

Key executive management personnel and remuneration disclosures are made in accordance with the *Financial Reporting Requirements for Queensland Government Agencies* issued by Queensland Treasury (refer note 29) and in accordance with AASB 124 *Related Party Disclosures*.

(v) Provisions

Impaired loans

Over the period 1996 to 2000, QTC, at the direction of the Queensland Government, acquired loans provided by financial institutions to a number of cooperative housing societies at a cost equivalent to book value. At the time of acquisition, there were a number of non-performing loans. Specific provisions have been made where full recovery of principal and interest is considered doubtful based on the net realisable value of the underlying security.

(w) Rounding

Amounts have been rounded to the nearest thousand dollars except for note 27 which is rounded to the nearest million dollars and notes 29 and 30 which are in whole dollars.

(x) Comparative figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

(y) Judgements and assumptions

QTC has made no judgements or assumptions which may cause a material adjustment to the carrying amounts of assets and liabilities within the next reporting period.

(z) Operating result

The operating profit after tax for the year ended 30 June 2012 for the Capital Markets Operations segment was $46.9 million. QTC made an operating profit of $187.2 million for the Long Term Assets segment.

The accumulated net losses of $2.2 billion (2011 $2.4 billion) have no impact on QTC's capacity to meet its obligations as there is no cash flow effect for QTC (refer note 20). In addition, under the *Queensland Treasury Corporation Act 1988*, any losses of the Corporation shall be the responsibility of the Consolidated Fund of the Queensland Government.

3 Segment reporting

An operating segment is identified where QTC engages in a business activity where separate financial information is evaluated regularly by the chief operating decision makers in deciding how to allocate resources.

Revenue and expenses directly associated with each business segment are included to determine their result. The accounting policies for each operating segment are applied consistently.

The results from QTC's operating segments are shown below:

SEGMENT REVENUE AND EXPENSES	FOR THE YEAR ENDED 30 JUNE 2012			FOR THE YEAR ENDED 30 JUNE 2011		
	Capital markets operations $000	Long term assets $000	Total $000	Capital markets operations $000	Long term assets $000	Total $000
Income						
Interest income	9 427 424	-	**9 427 424**	4 294 832	-	4 294 832
Net change in fair value of unit trusts	-	2 556 924	**2 556 924**	-	3 144 065	3 144 065
Other income	107 233	-	**107 233**	96 426	-	96 426
Total income	**9 534 657**	**2 556 924**	**12 091 581**	**4 391 258**	**3 144 065**	**7 535 323**
Expenses						
Interest expense	9 383 618	2 285 211	**11 668 829**	4 260 112	1 878 735	6 138 847
Depreciation on leased assets	27 911	-	**27 911**	22 097	-	22 097
Management fees	-	84 484	**84 484**	-	71 154	71 154
Other expenses	68 654	-	**68 654**	42 573	-	42 573
Total expenses	**9 480 183**	**2 369 695**	**11 849 878**	**4 324 782**	**1 949 889**	**6 274 671**
Share of associate's net profit	491	-	**491**	355	-	355
Profit before income tax	**54 965**	**187 229**	**242 194**	**66 831**	**1 194 176**	**1 261 007**
Income tax expense	8 056	-	**8 056**	20 874	-	20 874
Profit for the year	**46 909**	**187 229**	**234 138**	**45 957**	**1 194 176**	**1 240 133**

SEGMENT ASSETS AND LIABILITIES	30 JUNE 2012			30 JUNE 2011		
	Capital markets operations $000	Long term assets $000	Total $000	Capital markets operations $000	Long term assets $000	Total $000
Assets						
Onlendings	72 289 635	-	**72 289 635**	59 452 522	-	59 452 522
Financial assets	17 221 439	29 182 448	**46 403 887**	19 673 113	28 248 333	47 921 446
Other assets	779 877	-	**779 877**	450 463	-	450 463
Total assets	**90 290 951**	**29 182 448**	**119 473 399**	**79 576 098**	**28 248 333**	**107 824 431**
Liabilities						
Financial liabilities	89 440 574	31 852 678	**121 293 252**	78 786 110	31 105 792	109 891 902
Other liabilities	362 228	-	**362 228**	348 748	-	348 748
Total liabilities	**89 802 802**	**31 852 678**	**121 655 480**	**79 134 858**	**31 105 792**	**110 240 650**
Net assets	**488 149**	**(2 670 230)**	**(2 182 081)**	**441 240**	**(2 857 459)**	**(2 416 219)**

SEGMENT EQUITY	30 JUNE 2012			30 JUNE 2011		
	Capital markets operations $000	Long term assets $000	Total $000	Capital markets operations $000	Long term assets $000	Total $000
Equity 1 July	441 240	(2 857 459)	**(2 416 219)**	545 283	(4 051 635)	(3 506 352)
Profit after tax	46 909	187 229	**234 138**	45 957	1 194 176	1 240 133
Dividend paid	-	-	**-**	(150 000)	-	(150 000)
Equity 30 June	**488 149**	**(2 670 230)**	**(2 182 081)**	**441 240**	**(2 857 459)**	**(2 416 219)**

4 Interest income and interest expense from capital markets operations

	FOR THE YEAR ENDED 30 JUNE 2012			
	INTEREST $000	NET UNREALISED GAIN/LOSS $000	NET REALISED GAIN/LOSS $000	TOTAL INTEREST $000
INTEREST INCOME				
Domestic				
Money market deposits	79 510	6	-	**79 516**
Discount securities	376 079	686	1 258	**378 023**
Commonwealth and semi-government securities	255 900	6 497	402 380	**664 777**
Floating rate notes	200 671	(7 139)	773	**194 305**
Other investments	79 667	19 785	11 019	**110 471**
Forward rate agreements	-	176 645	-	**176 645**
Onlendings*	7 655 762	143 660	-	**7 799 422**
Offshore				
Medium-term notes	8 189	11 283	-	**19 472**
Cross currency swaps	27 584	(24 325)	-	**3 259**
Credit default swaps	1 585	(51)	-	**1 534**
	8 684 947	**327 047**	**415 430**	**9 427 424**
INTEREST EXPENSE				
Domestic				
Deposits	178 939	43	-	**178 982**
Treasury notes	109 592	999	51	**110 642**
Bonds	3 581 134	4 440 914	560 514	**8 582 562**
Credit foncier loans	(27)	6	-	**(21)**
Interest rate swaps	(67 428)	(52 530)	-	**(119 958)**
Forward rate agreements	-	-	8	**8**
Futures contracts	-	(7 305)	137 412	**130 107**
Floating rate notes	13 207	(24)	-	**13 183**
Offshore				
Commercial paper	11 198	(13 737)	-	**(2 539)**
Bonds	84 817	85 925	14 157	**184 899**
Medium-term notes	49 773	57 034	-	**106 807**
Cross currency swaps	54 603	(23 932)	-	**30 671**
Forward exchange contracts	-	(68 501)	189 968	**121 467**
Other				
Registration and issue costs	3 457	-	-	**3 457**
Commissions on futures	1 640	-	-	**1 640**
Commonwealth Government Guarantee Fee	41 711	-	-	**41 711**
	4 062 616	**4 418 892**	**902 110**	**9 383 618**

**The majority of onlendings are provided to clients on a pooled fund basis. Interest costs are allocated to clients based on the daily movement in the market value of the pooled fund. Except for fixed rate loans, the interest from onlendings figure also reflects the daily movements in the market value of the pooled funds. In periods of falling interest rates, the market value of the funding pool will rise leading to higher interest income from onlendings. During the year ended 30 June 2012, interest rates fell, which together with a large increase in client onlendings, led to higher interest income for the 2011-12 year.*

	FOR THE YEAR ENDED 30 JUNE 2011			
	INTEREST $000	**NET UNREALISED GAIN/LOSS $000**	**NET REALISED GAIN/LOSS $000**	**TOTAL INTEREST $000**
INTEREST INCOME				
Domestic				
Money market deposits	15 454	41	-	**15 495**
Discount securities	355 513	(47)	426	**355 892**
Commonwealth and semi-government securities	295 894	(4 424)	111 163	**402 633**
Floating rate notes	226 326	34 646	3 300	**264 272**
Other investments	111 395	(4 057)	5 202	**112 540**
Forward rate agreements	-	17 913	-	**17 913**
Onlendings	3 123 391	(15 919)	-	**3 107 472**
Offshore				
Medium-term notes	2 731	(15 091)	-	**(12 360)**
Cross currency swaps	14 458	9 879	-	**24 337**
Credit default swaps	416	6 222	-	**6 638**
	4 145 578	**29 163**	**120 091**	**4 294 832**
INTEREST EXPENSE				
Domestic				
Deposits	188 584	443	-	**189 027**
Treasury notes	95 021	424	25	**95 470**
Bonds	3 476 475	(400 105)	542 590	**3 618 960**
Credit foncier loans	(40)	16	-	**(24)**
Interest rate swaps	(35 883)	29 613	-	**(6 270)**
Forward rate agreements	-	182	184	**366**
Futures contracts	-	(12 713)	11 079	**(1 634)**
Offshore				
Commercial paper	10 907	(464 828)	160	**(453 761)**
Bonds	150 771	(35 399)	29 763	**145 135**
Medium-term notes	46 480	(53 082)	-	**(6 602)**
Cross currency swaps	44 002	(278)	-	**43 724**
Forward exchange contracts	4	119 749	434 357	**554 110**
Other				
Registration and issue costs	11 100	-	-	**11 100**
Commissions on futures	1 507	-	-	**1 507**
Commonwealth Government Guarantee Fee	69 004	-	-	**69 004**
	4 057 932	**(815 978)**	**1 018 158**	**4 260 112**

5 Net change in fair value of unit trusts

Changes in the fair value of the unit trusts are as follows:

ACCOUNT	2012 $000	2011 $000
QLQ Trust No. 1	**1 684 057**	3 041 526
QLQ Trust No. 2	**27 743**	(3 273)
QLQ Trust No. 3	**2 459**	-
QIC Property Fund	**96 674**	131 173
QIC Diversified Infrastructure Fund No. 2	**152 548**	38 335
QIC Strategic Fund No. 2	**115 625**	(99 240)
QIC Strategic Fund No. 3	**153**	5 375
QIC Private Equity Fund No. 2	**89 801**	10 005
QIC Private Equity Fund No. 3	**5 623**	16 245
QIC International Property Development Trust	**-**	184
Queensland BioCapital Fund No. 1	**2 398**	(2 055)
Queensland BioCapital Fund No. 2	**3 928**	(1 897)
QIC Treasury Infrastructure Trust	**(4)**	2
QIC Treasury Infrastructure Trust No. 1	**258 395**	(22)
QIC Treasury Infrastructure Trust No. 2	**77**	-
QIC Treasury Infrastructure Trust No. 2 Redeemable Pref Units	**117 597**	7 765
QIC Cash Fund	**145**	695
QIC Healthcare Ventures US Dollar Cash	**135**	-
QIC Healthcare Ventures	**(430)**	(753)
	2 556 924	3 144 065

Refer to note 10 for details of balances held at year end and asset allocations.

6 Fees – management

	2012 $000	2011 $000
Fees – management	**57 200**	55 512

Management fees represent income earned from the management of QTC's onlendings and deposits. A further amount of $7.322 million (2011 $8.143 million), derived from fees on certain managed funds and pools is included under interest income as it forms part of the interest rate applied.

7 Administration expenses

	2012 $000	2011 $000
Salaries and related costs	**27 405**	20 435
Superannuation contributions	**3 217**	2 808
Consultants' fees (i)	**6 859**	2 292
Outsourced services (ii)	**1 934**	1 536
Depreciation on property, plant and equipment	**1 478**	552
Amortisation on intangible assets	**341**	98
Impairment on intangible assets*	**14 811**	1 908
Computer charges	**2 519**	2 837
Property charges	**4 314**	2 704
External audit fees	**438**	368
Internal audit fees	**446**	402
Staff training and development	**368**	316
Investor and market relations program	**818**	940
Telephone, postage, printing and stationery	**532**	554
Other administration expenses	**3 194**	4 773
	68 674	42 523

** relates to impairment of software development costs (refer to note 14)*

(i) Consultants' fees

Legal costs professional/technical	**856**	962
Information technology	**136**	79
Contractors/secondments	**4 859**	1 330
Finance/accounting	**22**	266
Human resource management	**237**	238
Communications	**57**	138
Other	**692**	(721)
	6 859	2 292

(ii) Outsourced services

Information services	**977**	788
Registry charges	**162**	157
Domestic and international clearing charges	**641**	448
Bank charges	**118**	105
Other	**36**	38
	1 934	1 536

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

8 Income tax expense

	2012 $000	2011 $000
Current tax	**8 589**	20 585
Deferred tax	**(533)**	289
Income tax expense	**8 056**	20 874
Deferred income tax included in income tax expense comprises:		
(Increase)/decrease in deferred tax assets	**(517)**	275
(Decrease)/increase in deferred tax liabilities	**(16)**	14
	(533)	289
Numerical reconciliation between income tax expense and pre-tax accounting profit		
Profit for the year	**242 194**	1 261 007
Remove (profit)/loss from non-taxable pools:		
Capital markets operations	**(27 849)**	3 017
Long term assets	**(187 229)**	(1 194 176)
Operating profit from taxable pools	**27 116**	69 848
Tax at the Australian tax rate of 30% on taxable pools	**8 135**	20 954
Effect of non-deductible items:		
Share of net profit of jointly controlled entities	**(147)**	(106)
Other	**68**	26
Income tax expense	**8 056**	20 874
Income tax assets and liabilities at 30 June relates to the following:		
Deferred tax assets		
Accruals	**627**	470
Employee benefits	**1 811**	1 451
	2 438	1 921
Deferred tax liability		
Property, plant and equipment	**30**	46
Current tax liability	**8 589**	20 585
Deferred tax liability	**30**	46
Tax liabilities	**8 619**	20 631

9 Receivables

	2012 $000	2011 $000
GST receivable	**3 503**	1 262
Sundry debtors	**4 174**	10 706
Prepayments	**1 101**	1 047
Operating lease receivables	**244**	218
	9 022	13 233

10 Financial assets at fair value through profit or loss

CAPITAL MARKETS OPERATIONS	2012 $000	2011 $000
Money market deposits	**1 016 311**	2 065 650
Discount securities	**4 483 548**	5 273 357
Commonwealth and state securities (1)	**4 251 514**	6 472 579
Floating rate notes	**4 377 749**	3 800 453
Term deposits	**1 686 129**	622 841
Other investments	**1 406 188**	1 438 233
	17 221 439	19 673 113

(1) QTC maintains holdings of its own stocks. These holdings are netted off and therefore excluded from financial assets and financial liabilities at fair value through profit or loss (refer note 17).

The total includes investments made to manage:

- deposits of $5,077.143 million (2011 $5,562.013 million)
- surpluses and reserves of $488.149 million (2011 $441.240 million)
- cross border lease deferred income of $58.705 million (2011 $65.143 million)

The remaining investments are used to facilitate management of liquidity and interest rate risk or result from QTC borrowing in advance of requirements to manage financing/refinancing risk.

LONG TERM ASSETS	2012 $000	2011 $000
INVESTMENTS IN UNIT TRUSTS AND OTHER HOLDINGS – QIC:		
QLQ Trust No. 1	**19 458 681**	20 096 050
QLQ Trust No. 2	**305 737**	276 389
QLQ Trust No. 3	**25 672**	-
QIC Property Fund	**1 118 844**	1 021 643
QIC Diversified Infrastructure Fund No. 2	**1 463 208**	1 277 677
QIC Strategic Fund No. 2	**2 555 640**	1 772 096
QIC Strategic Fund No. 3	**7 907**	33
QIC Private Equity Fund No. 2	**848 431**	590 834
QIC Private Equity Fund No. 3	**45 702**	60 226
Queensland BioCapital Fund No. 1	**21 122**	15 553
Queensland BioCapital Fund No. 2	**24 308**	17 440
QIC Treasury Infrastructure Trust	**120**	124
QIC Treasury Infrastructure Trust No. 1	**2 002 790**	1 810 837
QIC Treasury Infrastructure Trust No. 2	**69**	-
QIC Treasury Infrastructure Trust No. 2 – Redeemable Pref Units	**1 304 217**	1 283 691
QIC Cash Fund	**-**	24 880
QIC Healthcare Ventures	**-**	860
	29 182 448	28 248 333
MOVEMENT DURING THE YEAR:		
Opening balance	**28 248 333**	19 201 500
Net contributions/(withdrawals)	**(1 622 809)**	(460 168)
Transfers by State Government	**-**	6 362 936
Net change in fair value of unit trusts	**2 556 924**	3 144 065
Balance at the end	**29 182 448**	28 248 333

10 Financial assets at fair value through profit or loss continued

The underlying assets of the trusts consist of the following asset classes:

	2012 $000	2011 $000
Growth assets		
Australian equities	**5 807 307**	5 254 190
International equities	**5 690 577**	5 225 942
Diversified alternatives & other	**3 239 252**	2 090 377
Unlisted assets		
Infrastructure	**2 509 691**	2 401 108
Private equity	**1 050 568**	762 705
Real estate	**2 334 596**	2 090 376
Defensive assets		
Fixed interest	**1 108 933**	2 768 337
Cash	**7 441 524**	7 655 298
	29 182 448	28 248 333

The Long Term Assets investments consist of units in unlisted trusts and other holdings held with QIC.

11 Derivative financial assets

	2012 $000	2011 $000
Interest rate swaps	**185 768**	41 093
Cross currency swaps	**120 831**	80 846
Forward rate agreements	**161 938**	71 987
Foreign exchange contracts	**6 519**	905
Credit default swaps	**-**	252
	475 056	195 083

12 Onlendings

	2012 $000	2011 $000
Government departments and agencies	**30 520 239**	22 689 799
Government owned corporations	**21 085 227**	19 016 232
Local governments	**5 859 780**	4 712 947
Queensland water entities	**10 825 970**	9 352 603
Statutory bodies	**1 113 361**	975 601
QTC related entities (1)	**2 659 158**	2 577 012
Other bodies	**225 900**	128 328
Total Onlendings	**72 289 635**	59 452 522

(1) Includes a loan of $2.2 billion (2011 $2.2 billion) to Queensland Treasury Holdings Pty Ltd to fund the purchase of the State's interest in QR National Limited (refer note 28(d)).

13 Property, plant and equipment

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

DESCRIPTION	LAND (1) $000	INFORMATION TECHNOLOGY AND OFFICE EQUIPMENT $000	PLANT AND MACHINERY (2) $000	TOTAL $000
GROSS CARRYING AMOUNT				
Balance at 1 July 2010	-	7 001	206 711	213 712
Acquisitions	-	1 378	60 611	61 989
Disposals	-	(56)	-	(56)
Balance at 30 June 2011	-	8 323	267 322	275 645
Balance at 1 July 2011	**-**	**8 323**	**267 322**	**275 645**
Acquisitions	**32 682**	**2 766**	**55 631**	**91 079**
Balance at 30 June 2012	**32 682**	**11 089**	**322 953**	**366 724**
ACCUMULATED DEPRECIATION				
Balance at 1 July 2010	-	5 624	22 987	28 611
Disposals	-	(56)	-	(56)
Depreciation expense	-	600	22 049	22 649
Balance at 30 June 2011	-	6 168	45 036	51 204
Balance at 1 July 2011	**-**	**6 168**	**45 036**	**51 204**
Depreciation expense	-	1 502	27 887	29 389
Balance at 30 June 2012	**-**	**7 670**	**72 923**	**80 593**
Net book value 30 June 2011	-	2 155	222 286	224 441
Net book value 30 June 2012	**32 682**	**3 419**	**250 030**	**286 131**

(1) Land includes land purchased to construct a bus depot which is subject to a 25 year leasing arrangement.

(2) Plant and machinery consists mainly of buses and ferries which QTC leases to public sector entities under a whole of government lease facility.

14 Intangible assets

	2012 $000	2011 $000
GROSS CARRYING AMOUNT		
Balance at 1 July	**17 487**	12 341
Acquisitions	**5 452**	7 054
Disposals & writeoffs*	**(14 811)**	(1 908)
Balance at 30 June	**8 128**	17 487
ACCUMULATED DEPRECIATION AND IMPAIRMENT		
Balance at 1 July	**2 677**	2 579
Amortisation for the year	**341**	98
Balance at 30 June	**3 018**	2 677
Net book value 30 June	**5 110**	14 810

**An impairment loss of $14.8 million was recognised during the year relating to software development following the termination of a licencing arrangement with a software vendor. Software development costs capitalised were assessed according to the capabilities and functions remaining and whether future service potential is expected to be delivered. The carrying value was written down to reflect only those components expected to deliver future economic benefits.*

15 Payables

	2012 $000	2011 $000
Cross border lease deferred income	**58 705**	65 143
Whole of Government Debt Pool net position	**26 738**	73 658
Administration expenses	**12 083**	13 267
Employee benefits	**5 653**	4 727
Unearned revenue	**1 061**	1 053
Other creditors	**1 780**	914
	106 020	158 762

16 Derivative financial liabilities

	2012 $000	2011 $000
Interest rate swaps	**78 064**	23 743
Cross currency swaps	**127 130**	30 761
Forward rate agreements	**-**	558
Foreign exchange contracts	**42 207**	105 096
Credit default swaps	**188**	363
	247 589	160 521

17 Financial liabilities at fair value through profit or loss

	2012 $000	2011 $000
INTEREST-BEARING LIABILITIES – CAPITAL MARKETS OPERATIONS		
Domestic		
Treasury notes	**2 405 545**	2 863 045
Bonds	**76 637 478**	65 435 231
Floating rate notes	**351 142**	-
Other	**220 092**	232 854
	79 614 257	68 531 130
Offshore		
Commercial paper	**1 688 197**	1 805 413
Bonds (1)	**1 685 383**	1 894 009
Medium-term notes	**1 179 015**	993 545
Floating rate notes	**196 579**	-
	4 749 174	4 692 967
Total interest-bearing liabilities	**84 363 431**	73 224 097

(1) Consists of AUD denominated global bonds which are borrowed in the United States and Euro markets.

Derivatives are used to hedge offshore borrowings resulting in no net exposure to any foreign currency.
Details of QTC's exposure to foreign currencies and the derivatives used to hedge this exposure are disclosed in note 21 (a)(i).

QTC borrowings are guaranteed by the Queensland Government under the *Queensland Treasury Corporation Act 1988*.

17 Financial liabilities at fair value through profit or loss continued

The difference between the carrying amount of financial liabilities and the amount contractually required to be paid at maturity to the holder of the obligation is set out in the following table.

AS AT 30 JUNE 2012	FAIR VALUE $000	REPAYMENT AT MATURITY $000	DIFFERENCE $000
INTEREST-BEARING LIABILITIES – CAPITAL MARKETS OPERATIONS			
Domestic			
Treasury notes	**2 405 545**	**2 420 000**	**(14 455)**
Bonds	**76 637 478**	**68 983 329**	**7 654 149**
Floating rate notes	**351 142**	**350 000**	**1 142**
Other	**220 092**	**210 881**	**9 211**
	79 614 257	**71 964 210**	**7 650 047**
Offshore			
Commercial paper	**1 688 197**	**1 691 888**	**(3 691)**
Bonds	**1 685 383**	**1 537 179**	**148 204**
Medium-term notes	**1 179 015**	**985 041**	**193 974**
Floating rate notes	**196 579**	**196 589**	**(10)**
	4 749 174	**4 410 697**	**338 477**
Total interest-bearing liabilities	**84 363 431**	**76 374 907**	**7 988 524**

AS AT 30 JUNE 2011	FAIR VALUE $000	REPAYMENT AT MATURITY $000	DIFFERENCE $000
INTEREST-BEARING LIABILITIES – CAPITAL MARKETS OPERATIONS			
Domestic			
Treasury notes	2 863 045	2 878 000	(14 955)
Bonds	65 435 231	63 022 558	2 412 673
Other	232 854	226 673	6 181
	68 531 130	66 127 231	2 403 899
Offshore			
Commercial paper	1 805 413	1 806 460	(1 047)
Bonds	1 894 009	1 804 700	89 309
Medium-term notes	993 545	849 774	143 771
	4 692 967	4 460 934	232 033
Total interest-bearing liabilities	**73 224 097**	**70 588 165**	**2 635 932**

	2012 $000	2011 $000
CLIENT DEPOSITS – CAPITAL MARKETS OPERATIONS		
Local governments	**1 660 901**	1 498 359
Government owned corporations	**1 198 786**	1 443 731
Statutory bodies	**911 802**	914 529
Queensland water entities	**189 057**	280 901
Government departments and agencies	**135 972**	247 188
QTC related entities	**43 829**	37 068
Other depositors	**219 618**	241 843
	4 359 965	4 663 619
Collateral	**107 457**	-
Repurchase agreements	**609 721**	898 394
Total deposits	**5 077 143**	5 562 013

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

18 Financial liabilities at amortised cost

	2012 $000	2011 $000
FIXED RATE NOTES – LONG TERM ASSETS		
State Government	**31 852 678**	31 105 792
	31 852 678	31 105 792

The Board considers that the carrying value of financial liabilities recorded at amortised cost in the financial statements approximates their fair value.

19 Reserves

	2012 $000	2011 $000
CREDIT RISK RESERVE (1)		
Balance at 1 July	**145 615**	133 363
Transfer from retained surplus	**15 204**	12 252
Balance at 30 June	**160 819**	145 615
BASIS RISK RESERVE (2)		
Balance at 1 July	**31 000**	62 500
Transfer to retained surplus	**(4 000)**	(31 500)
Balance at 30 June	**27 000**	31 000
Total	**187 819**	176 615

(1) As the State's corporate treasury, QTC undertakes portfolio management activities on behalf of clients and raises debt funding in advance of requirements thereby ensuring Queensland public sector entities have ready access to funding when required and also to reduce the risk associated with refinancing maturing loans. These activities expose QTC to credit risk due to the growth in counterparty exposures.

In addition to its portfolio management activities, QTC also invests funds on behalf of its clients through the QTC Cash Fund. QTC's Cash Fund is capital guaranteed. To reduce the impact of a credit failure on its retained earnings, QTC sets aside a certain portion of its fees earned from the Cash Fund to the Credit Risk Reserve together with interest accumulated on the reserves. The Credit Risk Reserve will be utilised if a credit event results in there being a shortfall between the guaranteed capital and the investments of the Cash Fund.

(2) The Basis Risk Reserve has been created to provide for losses that may occur as a result of basis risk where QTC has borrowed funds in excess of its loans to clients. The excess borrowings are needed to enable QTC to manage its client debt portfolios and liquidity, and are hedged through the purchase of liquid assets. Gains/losses may result due to interest yields on the asset hedges not moving in exactly the same manner as the interest yields on borrowings. Basis risk is measured using the value at risk methodology. At the 99% confidence level, the accumulated losses as a result of basis risk on surplus fixed rate funding over a 10 business day period will be no greater than the value of the reserve for surplus fixed rate funding. Further at 99% confidence, the accumulated losses as a result of basis risk on surplus floating rate funding over a 20 business day period, will be no greater than the value of the reserve for surplus floating rate funding.

20 Notes to the statement of cash flows

(a) Reconciliation of profit after tax to net cash provided by operating activities – capital markets operations

	2012 $000	2011 $000
Profit for the year	**46 909**	45 957
NON-CASH FLOWS IN OPERATING SURPLUS		
Interest-bearing liabilities – net unrealised loss/(gain)	**1 991 771**	(957 920)
Interest-bearing liabilities – net unrealised exchange loss	**29 722**	638 072
Deposits – net unrealised loss	**43**	398
Onlendings net unrealised (gain)/ loss	**(193 026)**	20 006
Financial assets at fair value through profit or loss – net unrealised (gain)/loss	**(339 138)**	40 101
Financial assets at fair value through profit or loss – net unrealised exchange (gain)	**(11 879)**	(9 535)
Depreciation of property, plant and equipment	**29 389**	22 649
Amortisation of intangibles	**341**	98
Net gain on sale of property, plant and equipment	**-**	(2)
Impairment of intangibles	**14 811**	1 908
Doubtful debts expense cooperative housing societies	**(20)**	50
Share of profit from investments accounted for using the equity method	**(491)**	(355)
CHANGES IN ASSETS AND LIABILITIES		
Decrease/(increase) in financial assets at fair value through profit or loss – net accrued interest	**10 685**	(26 742)
(Increase)/decrease in financial assets at fair value through profit or loss – net discount/premium	**(438 485)**	216 726
(Increase)/decrease in deferred tax asset	**(518)**	275
(Increase) in onlendings – net accrued interest	**(4 684)**	(348)
Decrease/(increase) in receivables	**4 265**	(860)
(Increase)/decrease in prepayments	**(53)**	133
Increase in interest-bearing liabilities – net accrued interest	**97 325**	48 770
Increase in interest-bearing liabilities – net discount/premium	**2 937 019**	421 780
(Decrease) in deposits – net accrued interest	**(665)**	(5 462)
(Decrease) in payables	**(52 742)**	(18 212)
(Decrease)/increase in deferred tax liability	**(16)**	14
(Decrease) in income tax payable	**(11 996)**	(13 419)
Net cash provided by operating activities	**4 108 567**	424 082

(b) Cash flows presented on a net basis

Cash flows arising from the following activities are presented on a net basis in the statement of cash flows:

- loan advances to and redemptions from clients
- receipt and withdrawal of client deposits, and
- money market and other deposits.

(c) Long term assets

No external cashflow is generated from the Long Term Assets as deposits and withdrawals from the fixed rate notes result in a corresponding change to the investments held. Interest on the fixed rate notes is capitalised. Earnings, market movement and fees on the investment are recognised in the valuation of the investment (refer notes 2 (f) and 3).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

21 Financial risk management

CAPITAL MARKETS OPERATIONS

QTC's activities expose it to a variety of financial risks including market risk (currency, interest rate and price risks), credit risk and liquidity risk. QTC's financial risk management program focuses on minimising financial risk exposures and managing volatility, and seeks to mitigate potential adverse effects of financial risks on the financial performance of QTC and its clients. To assist in managing financial risk, QTC uses derivative financial instruments such as foreign exchange contracts, interest rate swaps and futures contracts to manage certain risk exposures.

All financial risk management activities are conducted within Board approved policies. The Board approves policies for overall risk management, as well as specifically for managing foreign exchange, interest rate and credit risks, the use of derivative financial instruments and managing and investing liquid funds.

Robust systems are in place for managing financial risk, and compliance with financial risk policies is monitored closely. The financial risk management process, including daily measuring and monitoring of market risk exposure, liquidity and daily measuring of actual performance against benchmark performance, as well as the Counterparty Credit Limit Framework and Approvals Process, is performed by teams separate from the teams transacting and is subject to review by the Risk Management Team (comprising senior management), the Funding and Markets Committee (comprised of Board members) and the Board.

All breaches of the Financial Risk Management Policy together with the corrective action proposed or taken are required to be immediately reported to the Chief Executive and then to the next Funding and Markets Committee meeting and the next Board Meeting.

(a) Market risk

QTC borrows in advance of requirements to ensure Queensland public sector entities have ready access to funding when required and also to reduce the risk associated with refinancing maturing loans. In addition, QTC may hold surplus funds to assist with the management of client portfolios. These surplus funds are invested in high credit quality, highly liquid financial investments. As a consequence, QTC is subject to market risk.

QTC uses a Board approved Value-at-Risk (VaR) framework to manage QTC's exposure to market risk. The VaR risk measure estimates the potential mark-to-market loss over a given holding period at a 99% confidence level. QTC uses the historical simulation approach to calculate VaR using 18 months of market data. Depending on the liquidity of the underlying financial instruments, either a 10 day or 20 day holding period is used. QTC has developed scenario analysis capabilities to complement VaR.

(i) Foreign exchange risk

QTC has funding facilities that allow for borrowing in foreign currencies. As QTC's clients have no foreign currency funding requirements, all foreign currency borrowings are either hedged to Australian dollars to ensure no currency risk or invested in financial assets denominated in that currency, effectively eliminating any foreign currency exposure. Therefore QTC is not impacted by changes in foreign exchange rates.

At times, QTC's Cash Fund invests in foreign currency assets. These investments are always hedged through the use of derivatives to achieve a net Australian dollar exposure.

QTC enters into both forward exchange contracts and cross currency swaps to hedge the exposure of foreign currency borrowings and offshore investments from fluctuations in exchange rates.

The following table summarises the hedging effect that cross currency swaps and forward exchange contracts have had on face value offshore borrowings and investments stated in Australian dollars.

	BORROWINGS		OFFSHORE INVESTMENTS		FORWARD EXCHANGE CONTRACTS		NET EXPOSURE	
	2012 $000	2011 $000	2012 $000	2011 $000	2012 $000	2011 $000	2012 $000	2011 $000
USD	**(1 796 333)**	(1 731 074)	**268 691**	220 285	**1 527 642**	1 510 789	**-**	-
CHF	**(113 260)**	(17 899)	**-**	-	**113 260**	17 899	**-**	-
GBP	**-**	(7 488)	**-**	-	**-**	7 488	**-**	-
NZD	**(608 017)**	(598 841)	**-**	-	**608 017**	598 841	**-**	-
EUR	**(58 143)**	-	**107 626**	-	**(49 483)**	-	**-**	-
YEN	**(185 310)**	(173 664)	**-**	-	**185 310**	173 664	**-**	-

(ii) Interest rate risk

In managing interest rate risk on behalf of clients, the onlending portfolios are managed against duration benchmarks. Duration is a direct measure of the interest rate sensitivity of a financial instrument or a portfolio of financial instruments and quantifies the change in value of a financial instrument or portfolio due to interest rate movements. To manage the risk of non-parallel yield curve movements, QTC manages portfolio cash flows in a series of time periods with the duration for each of these periods measured against the equivalent benchmark duration. The same process is also used for QTC's Cash Fund. All costs or benefits of managing client debt portfolios are passed on to the client meaning that QTC is effectively immunised from interest rate risk with respect to these portfolios.

QTC enters into interest rate swaps, forward rate agreements and futures contracts to assist in the management of interest rate risk for QTC and its clients.

In most instances, interest rate swaps are utilised to change the interest rate exposure of medium to long term fixed rate borrowings into floating rate borrowings to achieve cost effective floating rate funding and to minimise refinancing risk when compared to floating rate debt. At times, floating to fixed swaps are undertaken to generate a fixed rate term funding profile.

Where interest rate swaps are used to manage funding, QTC is exposed to basis risk. This risk gives rise to a mark-to-market exposure due to movements between the Swap curve and the QTC curve. The swap risk is inherent in QTC's approach to raising floating rate funding.

VaR IMPACT

The VaR at 30 June was as follows:

	2012	2011
Interest rate risk VaR	**$39m**	$40m

The above VaR calculation does not include the potential mark-to-market impact of changes in credit spreads on the value of assets held in the QTC Cash Fund. At 30 June 2012, QTC had an exposure of approximately $1,079,000 per basis point to changes in credit spreads of assets held in the QTC Cash Fund.

IMPACT ON OPERATING RESULT

Funding in advance

As previously stated, QTC holds surplus funds generated through the issuance of debt to meet future commitments, which have been hedged through the purchase of high credit quality and highly liquid financial assets. Due to the nature of these hedging instruments (eg futures and other RBA repo eligible securities such as bank bills and government bonds), there are residual risk positions which may result in realised and unrealised accounting gains or losses.

Fixed rate funding

The out-performance of assets (principally Commonwealth and semi-government bonds) hedging fixed term debt, resulted in mark-to-market accounting gains for the year of $27.0 million (2011 $38.7 million loss). Depending on market changes, these gains may be reversed in subsequent accounting periods.

Floating rate funding

A portion of QTC's floating rate funding requirement is generated through the liability swapping of term debt. The out-performance of the swap curve to the QTC curve resulted in mark-to-market accounting gains for the year of $32.7 million (2011 $14.9 million). As these interest rate swaps are utilised to provide medium to long-term floating rate funding, it is likely that QTC will hold the majority of these transactions until maturity such that the unrealised gains may be reversed over the life of the funding strategy.

Cash Fund

QTC invests funds on behalf of its clients which are held in the QTC Cash Fund. As credit spreads widened over 2011-12, the value of the assets held in the Cash Fund decreased by $6.4 million (2011 $34.2 million increase) due to unrealised mark-to-market accounting losses. It has been QTC's practice to hold these assets to maturity and therefore not pass on credit margin changes, either positive or negative, as a result of credit spread movements in the returns to Cash Fund participants.

(b) Liquidity and financing risks

QTC maintains its domestic benchmark bond facility as its core medium to long-term funding facility and its domestic treasury note facility, euro-commercial paper facility and US commercial paper facility as its core short-term funding facilities. In addition, QTC has in place Euro and US medium-term note facilities to take advantage of funding opportunities in offshore markets. These facilities ensure that QTC is readily able to access the domestic and international financial markets. QTC's extensive range of funding facilities is detailed in note 27.

Over 2011-12, QTC continued to develop a solely State Government guaranteed bond curve and now has established nine A$ benchmark bond lines with maturities ranging from 2013 to 2024.

In total QTC raised $18,398 million in 2011-12 (final borrowing requirement $16,098 million) resulting in additional funding of $2,300 million to be applied towards next year's borrowing program.

To ensure liquidity is accessible as required, QTC holds a minimum of $500 million or 20 working days' cash requirements (whichever is the higher) in 11AM cash to fund unexpected cash outflows. In addition, the majority of QTC surplus holdings are in high credit quality and highly liquid financial investments. QTC applies liquidity stress tests to ensure that the liquid asset holdings are sufficient to meet funding requirements.

The table below sets out the contractual cashflows relating to assets and liabilities held by QTC at balance date.

With the exception of deposits and payables, the maturity analysis for liabilities has been calculated based on the contractual cash flows relating to the repayment of the principal (face value) and interest amounts over the contractual terms.

Deposits on account of the Cash Fund and Working Capital Facility (11AM Fund) are repayable at call while deposits held as security for stock lending and repurchase agreements are repayable when the security is lodged with QTC.

With the exception of cash and receivables, the maturity analysis for assets has been calculated based on the contractual cash flows relating to the repayment of the principal (face value) and interest amounts over the contractual terms.

In relation to client onlendings, certain loans are interest only with no fixed repayment date for the principal component (ie, loans are made based on the quality of the client's business and its financial strength). For the purposes of completing the maturity analysis, the principal component of these loans has been included in the over five year time band with no interest payment assumed in this time band.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

21 Financial risk management continued

CONTRACTUAL MATURITIES AS AT 30 JUNE 2012	0 TO 3 MONTHS $000	3 TO 6 MONTHS $000	6 TO 12 MONTHS $000	1 TO 5 YEARS $000	OVER 5 YEARS $000	TOTAL $000	FAIR VALUE $000
FINANCIAL ASSETS							
Cash	743	-	-	-	-	**743**	**743**
Receivables	9 021	-	-	-	-	**9 021**	**9 021**
Onlendings #	1 748 021	1 392 382	1 301 373	21 797 545	69 982 706	**96 222 027**	**72 289 635**
Money market deposits	1 016 411	-	-	-	-	**1 016 411**	**1 016 311**
Discount securities	3 278 251	1 240 000	-	-	-	**4 518 251**	**4 483 548**
Commonwealth and semi-government securities	95 267	77 703	311 781	2 456 585	2 025 297	**4 966 633**	**4 251 514**
Floating rate notes	320 058	200 537	575 919	2 773 434	259 676	**4 129 624**	**4 377 749**
Term deposits	585 873	1 121 918	-	-	-	**1 707 791**	**1 686 129**
Other investments	115 741	13 212	130 292	1 178 637	132 124	**1 570 006**	**1 406 188**
Total monetary assets	**7 169 386**	**4 045 752**	**2 319 365**	**28 206 201**	**72 399 803**	**114 140 507**	**89 520 838**
FINANCIAL LIABILITIES							
Payables/tax liability	(106 020)	(8 589)	-	(30)	-	**(114 639)**	**(114 639)**
Deposits	(5 358 799)	(20 434)	-	-	-	**(5 379 233)**	**(5 077 143)**
Treasury notes	(1 720 000)	(700 000)	-	-	-	**(2 420 000)**	**(2 405 545)**
Domestic bonds	(1 013 865)	(1 011 271)	(2 057 683)	(41 684 366)	(48 462 379)	**(94 229 564)**	**(76 637 478)**
Floating rate notes	(353 407)	(196 798)	-	-	-	**(550 205)**	**(547 721)**
Commercial paper	(464 915)	(1 226 973)	-	-	-	**(1 691 888)**	**(1 688 197)**
Global bonds	(32 380)	(15 393)	(46 070)	(1 230 104)	(538 750)	**(1 862 697)**	**(1 685 383)**
Medium-term notes	(26 415)	(2 455)	(26 911)	(223 125)	(1 162 610)	**(1 441 516)**	**(1 179 015)**
Other	(28 837)	(20 828)	(25 086)	(156 346)	(4 864)	**(235 961)**	**(220 092)**
Total monetary liabilities	**(9 104 638)**	**(3 202 741)**	**(2 155 750)**	**(43 293 971)**	**(50 168 603)**	**(107 925 703)**	**(89 555 213)**
DERIVATIVES							
Interest rate swaps	41 675	44 953	99 348	32 736	(116 689)	**102 023**	**107 704**
Cross currency swaps	(538 415)	192 356	(19 676)	(147 218)	292 330	**(220 623)**	**(6 299)**
Forward rate agreements	(237 368)	(811 209)	(492 927)	867 230	1 229 132	**554 858**	**161 938**
Foreign exchange contracts	2 226	(53 561)	-	-	-	**(51 335)**	**(35 688)**
Credit default swaps	73	(103)	-	-	-	**(30)**	**(188)**
Net derivatives	**(731 809)**	**(627 564)**	**(413 255)**	**752 748**	**1 404 773**	**384 893**	**227 467**
Net monetary assets/(liabilities)	**(2 667 061)**	**215 447**	**(249 640)**	**(14 335 022)**	**23 635 973**	**6 599 697**	**193 092**
Cumulative	**(2 667 061)**	**(2 451 614)**	**(2 701 254)**	**(17 036 276)**	**6 599 697**	**-**	**-**

 # QTC's onlendings to Government owned corporation clients are based on the quality of the business and financial strength of the client. Funds are therefore onlent on the basis of these businesses being going concerns and continuing to meet key credit metrics criteria such as debt to capital and interest coverage ratios. Accordingly, a significant portion of the onlendings portfolio has a loan maturity profile which is greater than five years with the interest rate risk of these loans being managed based on the client's business risk such that the funding is structured on the underlying business profile. This results in QTC's liability maturity profile being shorter than the asset maturity profile. Though not exposing QTC to interest rate risk, this approach does require QTC to undertake periodic refinancing of its liabilities.

CONTRACTUAL MATURITIES AS AT 30 JUNE 2011	0 TO 3 MONTHS $000	3 TO 6 MONTHS $000	6 TO 12 MONTHS $000	1 TO 5 YEARS $000	OVER 5 YEARS $000	TOTAL $000	FAIR VALUE $000
FINANCIAL ASSETS							
Receivables	13 233	-	-	-	-	**13 233**	**13 233**
Onlendings	2 449 141	2 409 240	4 870 400	18 552 734	56 917 017	**85 198 532**	**59 452 522**
Money market deposits	2 064 532	-	-	-	-	**2 064 532**	**2 065 650**
Discount securities	5 062 530	250 000	-	-	-	**5 312 530**	**5 273 357**
Commonwealth and semi-government securities	208 351	111 299	176 061	2 068 057	6 682 924	**9 246 692**	**6 472 579**
Floating rate notes	205 262	300 432	622 527	2 915 883	814 840	**4 858 944**	**3 800 453**
Other investments	1 040 947	390 893	116 950	392 681	237 326	**2 178 797**	**2 061 074**
Total monetary assets	**11 043 996**	**3 461 864**	**5 785 938**	**23 929 355**	**64 652 107**	**108 873 260**	**79 138 868**
FINANCIAL LIABILITIES							
Bank overdraft	(8 834)	-	-	-	-	**(8 834)**	**(8 834)**
Payables/tax liability	(158 762)	(20 585)	-	(46)	-	**(179 393)**	**(179 393)**
Deposits	(5 542 607)	(20 502)	-	-	-	**(5 563 109)**	**(5 562 013)**
Treasury notes	(2 863 000)	-	(15 000)	-	-	**(2 878 000)**	**(2 863 045)**
Domestic bonds	(249 843)	(1 105 023)	(7 979 277)	(40 936 384)	(35 241 414)	**(85 511 941)**	**(65 435 231)**
Other bonds	(24 832)	(23 348)	(35 995)	(163 129)	(6 358)	**(253 663)**	**(232 854)**
Commercial paper	(1 806 460)	(1)	-	-	-	**(1 806 461)**	**(1 805 413)**
Global bonds	(36 485)	(17 656)	(54 141)	(1 501 230)	(688 004)	**(2 297 516)**	**(1 894 009)**
Medium-term notes	(24 087)	(2 301)	(26 387)	(211 100)	(1 027 882)	**(1 291 757)**	**(993 545)**
Total monetary liabilities	**(10 714 910)**	**(1 189 416)**	**(8 110 800)**	**(42 811 889)**	**(36 963 658)**	**(99 790 673)**	**(78 974 337)**
DERIVATIVES							
Interest rate swaps	(6 339)	97 546	201 562	315 155	-	**607 924**	**17 350**
Cross currency swaps	(328 622)	(5 444)	(26 285)	(79 995)	409 063	**(31 283)**	**50 085**
Forward rate agreements	(257 667)	(589 262)	(536 999)	1 488 584	617 449	**722 105**	**71 429**
Foreign exchange contracts	(119 714)	68	78	47	-	**(119 521)**	**(104 191)**
Credit default swaps	296	(28)	(9)	(75)	-	**184**	**(111)**
Net derivatives	**(712 046)**	**(497 120)**	**(361 653)**	**1 723 716**	**1 026 512**	**1 179 409**	**34 562**
Net monetary assets/(liabilities)	**(382 960)**	**1 775 328**	**(2 686 515)**	**(17 158 818)**	**28 714 961**	**10 261 996**	**199 093**
Cumulative	**(382 960)**	**1 392 368**	**(1 294 147)**	**(18 452 965)**	**10 261 996**	**-**	**-**

21 Financial risk management continued

(c) Credit risk

(i) Financial markets counterparties

QTC is exposed to credit risk. Credit risk is regularly assessed, measured and managed in strict accordance with QTC's Credit Policy. Exposure to credit risk is managed through regular analysis of the ability of credit counterparties to meet payment obligations. Counterparty credit limits are changed based on QTC's view of the capacity of the counterparty to meet its obligation.

Credit exposure is QTC's estimate of its potential loss at balance date in relation to investments and derivative contracts in the event of non-performance by all counterparties. The credit exposure is calculated based on the market value of the exposure together with the VaR which takes into account the current market value, duration, term to maturity and interest rate and/or exchange rate volatility.

The following table represents QTC's exposure to credit risk at 30 June:

	CREDIT EXPOSURE	
	2012 $000	2011 $000
Investments	**18 184 112**	22 119 198
Derivatives		
Interest rate swaps	**987 030**	717 752
Cross currency swaps	**181 732**	154 043
Foreign exchange contracts	**51 477**	4 035
Credit default swaps	**73 723**	242 415

QTC adopts a conservative approach to the management of credit risk with a strong bias to high credit quality counterparties. QTC maintains a ratings based approach in determining maximum credit exposures to counterparties which is supplemented by QTC's Risk Group performing its assessment of QTC's large counterparties and special purpose issuers. The country of domicile, the counterparty's credit metrics, the size of its funding programs and the asset composition and quality of the underlying security are also significant considerations when determining limits.

QTC has a significant concentration of credit risk to the banking sector and in particular, the domestic banking sector. This is difficult to avoid given the size of QTC's investment portfolio and the requirement to invest with counterparties rated A- or better (92% of exposures are AA- or better) and to invest in highly liquid securities.

QTC also utilises collateral arrangements to limit its derivatives' credit exposure.

Counterparty exposure by rating for all investments and derivative contracts is listed below:

		CREDIT EXPOSURE	
	RATING	2012 %	2011 %
Long-term rating	AAA	**29**	47
	AA+	**6**	1
	AA	**1**	42
	AA-	**55***	2
	A+	**3**	5
	A	**3**	2
	A-	**1**	-
Short-term rating	A-1+	**1**	1
	A-2	**1**	-

** Reflects ratings downgrade of major Australian Banks during the year.*

While QTC's capital is not subject to regulatory oversight, QTC utilises a capital adequacy approach based on Basel II: *International Convergence of Capital Measurements and Capital Standards* to calculate and advise the Board of the amount of capital required to cover its risks including credit risk.

(ii) Onlending counterparties

Counterparties for onlendings, with the exception of some small exposures to private companies, cooperative housing societies and primary producer cooperatives, are Queensland Government sector entities and in some cases an explicit State Government guarantee exists. There is a specific State Government guarantee in place for the Suncorp-Metway Limited loans. As a consequence, these exposures are not included in QTC's total credit exposure.

LONG TERM ASSETS

The Long Term Assets are invested in unlisted unit trusts held with QIC. The trusts hold investments in a variety of financial instruments including derivatives, which expose these assets to credit risk, liquidity risk and market risk due to changes in interest rates, foreign exchange rates, property and equity prices. However, as these investments are long term in nature, market fluctuations are expected to even out over the term of the investment.

The Long Term Asset Advisory Board (LTAAB) determines the investment objectives, risk profiles and strategy for the Long Term Assets. It is responsible for formulating a strategic asset allocation to achieve the objectives of the investments in line with the required risk profile. Risk management policies are established to identify and analyse the risks and to set appropriate risk limits and controls, as well as to monitor risks and adherence against these limits.

QSuper Limited and QIC provide assistance to the LTAAB in discharging its responsibilities.

QIC's role includes recommending to the LTAAB, investment product objectives, risk profiles and strategic asset allocations to achieve objectives within the targets and risk controls set. As the lead investment manager, QIC is responsible for implementing the investment strategy.

QSuper Limited provided a secretariat service which has recently been transferred to QTC. In addition an independent oversight of the investment advice and services provided by QIC including periodic strategic reviews of QIC's activities and performance is provided by an external consultant.

The LTAAB is responsible for setting the interest rate applicable on the fixed rate note liability of QTC, based on the long term average rate of return assumed in the triennial actuarial assessment of the State's defined benefit liability. The rate is currently set at 7.5% per annum.

(a) Market risk

The Long Term Assets expose QTC to market risk, including interest rate risk, foreign currency risk, property and equity price risk, resulting from its investments in unit trusts.

Market risk is mitigated through a diversified portfolio of investments in unit trusts held with QIC in accordance with the investment strategy approved by the LTAAB (refer note 10). The investment strategy targets a widely diversified portfolio across a broad range of asset classes.

QIC adheres to prudential controls contained in the Investment Management Agreement. Under this agreement, derivative products are not permitted to be used for speculative purposes but are used as hedging instruments against existing positions or for efficient trading and asset allocation purposes to assist in achieving the overall investment returns and volatility objectives of the portfolio.

(i) Sensitivity analysis

The market risk of the Long Term Assets comprises the risk that the unit price of the funds in which the assets are invested will change during the next reporting period (effectively price risk). A sensitivity analysis for the key types of market risk that apply to the investments of the funds has been undertaken by QIC. QIC has provided a range of reasonably possible changes in key risk variables including the ASX 200, the MSCI World ex Australia Equities Index, the RBA official cash rate and a large number of currencies.

Based on this assessment, a reasonably possible change in profit and equity on applicable investments held at 30 June is as follows:

	2012 PRICE RISK		2012 PROFIT/EQUITY		2011 PRICE RISK		2011 PROFIT/EQUITY	
	LOW	HIGH	DECREASE $000	INCREASE $000	LOW	HIGH	DECREASE $000	INCREASE $000
INVESTMENTS IN UNIT TRUSTS – QIC:								
QLQ Trust No. 1	**-8%**	**8%**	**(1 556 695)**	**1 556 695**	-12%	12%	(2 411 526)	2 411 526
QLQ Trust No. 2	**-13%**	**15%**	**(39 746)**	**45 861**	-11%	12%	(30 403)	33 167
QLQ Trust No. 3	**-8%**	**8%**	**(2 054)**	**2 054**	-	-	-	-
QIC Property Fund	**-3%**	**3%**	**(33 565)**	**33 565**	-4%	4%	(40 866)	40 866
QIC Diversified Infrastructure Fund No. 2	**-15%**	**15%**	**(219 481)**	**219 481**	-18%	19%	(229 982)	242 759
QIC Strategic Fund No. 2	**-15%**	**15%**	**(383 346)**	**383 346**	-24%	26%	(425 303)	460 745
QIC Strategic Fund No. 3	**-5%**	**5%**	**(395)**	**395**	-15%	15%	(5)	5
QIC Private Equity Fund No. 2	**-16%**	**16%**	**(135 749)**	**135 749**	-23%	25%	(135 892)	147 708
QIC Private Equity Fund No. 3	**-19%**	**20%**	**(8 683)**	**9 140**	-24%	26%	(14 454)	15 659
Queensland BioCapital Fund No. 1	**-9%**	**9%**	**(1 901)**	**1 901**	-16%	16%	(2 489)	2 489
Queensland BioCapital Fund No. 2	**-9%**	**9%**	**(2 188)**	**2 188**	-14%	15%	(2 442)	2 616
QIC Treasury Infrastructure Trust	**-10%**	**10%**	**(12)**	**12**	-15%	15%	(19)	19
QIC Treasury Infrastructure Trust No. 1	**-10%**	**10%**	**(200 279)**	**200 279**	-15%	15%	(271 626)	271 626
QIC Treasury Infrastructure Trust No. 2	**-10%**	**10%**	**(7)**	**7**	-	-	-	-
QIC Treasury Infrastructure Trust No. 2 redeemable pref units	**-10%**	**10%**	**(130 422)**	**130 422**	-	-	-	-
QIC Cashfund	**-**	**-**	**-**	**-**	-0.08%	0.08%	(20)	20
QIC Healthcare Ventures	**-**	**-**	**-**	**-**	-24%	26%	(206)	224

(b) Liquidity risk

No external cashflows are generated from the Long Term Assets as deposits and withdrawals from the fixed rate notes result in a corresponding change in the investment held and do not expose QTC to liquidity risk arising from these daily movements. Interest on the fixed rate notes and distributions and fees on the Long Term Assets are capitalised.

The fixed rate notes provided to the State Government in exchange for the Long Term Assets has a term of 50 years. Due to the long term nature of this arrangement, no liquidity risk has been identified.

22 Fair value hierarchy

Financial instruments measured at fair value have been classified in accordance with the hierarchy described in AASB 7 *Financial Instruments: Disclosures*. The three level fair value hierarchy reflects the significance of the inputs used to determine the valuation of these instruments.

All financial instruments are valued by reference to either quoted market prices or observable inputs with no significant adjustments applied to instruments held and therefore no financial instruments are classified under Level 3.

Level 1 fair value measurements are those derived directly from quoted market prices (unadjusted) in active markets for identical assets and liabilities. Financial instruments under this category consist primarily of short-term and tradable bank deposits and Commonwealth and semi-government bonds where an active market has been established.

Level 2 fair value measurements include instruments valued using quoted market prices in active markets for similar instruments or quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data. Financial instruments under this category include non actively traded corporate and semi-government bonds (including the QTC 2033 bond and the Capital Indexed bond), certain money market securities (commercial paper and promissory notes) and all derivatives. QTC's onlendings and client deposits are included under this category.

Level 3 fair value measurements are those derived from unobservable inputs or observable inputs to which significant adjustments have been applied.

The principal inputs to determine the valuation of financial instruments are discussed below:

- Interest rates – these are principally benchmark interest rates such as interbank rates and quoted interest rates in the swap, bond and futures markets. QTC applies mid-market rates for establishing fair values of financial instruments.
- Counterparty credit spreads – adjustments are made to market prices for changes in the credit worthiness of the counterparty.
- Interest rate and foreign currency swaps – there are observable markets for both spot and forward contracts.
- Cross currency swaps – these instruments are typically held to maturity and valued using the original trading margin to the swap curve.
- Net Asset Value (NAV) – Units in trust funds are valued by QIC using fair value methodologies. The NAV is based on the hard close unit price at balance date.

There were no transfers between Level 1 and Level 2 or out of Level 3 during the year ended 30 June 2012.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

22 Fair value hierarchy continued

AS AT 30 JUNE 2012	QUOTED MARKET PRICES LEVEL 1 $000	OBSERVABLE MARKET INPUTS LEVEL 2 $000	UNOBSERVABLE MARKET INPUTS LEVEL 3 $000	TOTAL $000
CAPITAL MARKETS OPERATIONS				
Financial assets				
Onlendings	-	72 289 635	-	**72 289 635**
Money market deposits	1 016 311	-	-	**1 016 311**
Discount securities	4 228 284	255 264	-	**4 483 548**
Commonwealth and state securities	4 251 514	-	-	**4 251 514**
Floating rate notes	4 375 947	1 802	-	**4 377 749**
Term deposits	-	1 686 129	-	**1 686 129**
Other investments	99 144	1 307 044	-	**1 406 188**
	13 971 200	**75 539 874**	**-**	**89 511 074**
Derivative financial assets				
Interest rate swaps	-	185 768	-	**185 768**
Cross currency swaps	-	120 831	-	**120 831**
Forward rate agreements	-	161 938	-	**161 938**
Foreign exchange contracts	-	6 519	-	**6 519**
	-	**475 056**	**-**	**475 056**
Total financial assets	**13 971 200**	**76 014 930**	**-**	**89 986 130**
Financial liabilities				
Treasury notes	-	2 405 545	-	**2 405 545**
Commercial paper	-	1 688 197	-	**1 688 197**
Domestic bonds	74 976 810	1 660 668	-	**76 637 478**
Offshore bonds	1 685 383	-	-	**1 685 383**
Other bonds	-	219 801	-	**219 801**
Credit foncier loans	-	291	-	**291**
Medium-term notes	-	1 179 015	-	**1 179 015**
Floating rate notes	-	547 721	-	**547 721**
Client deposits	-	4 359 965	-	**4 359 965**
Collateral	-	107 457	-	**107 457**
Repurchase agreements	-	609 721	-	**609 721**
	76 662 193	**12 778 381**	**-**	**89 440 574**
Derivative financial liabilities				
Interest rate swaps	-	78 064	-	**78 064**
Cross currency swaps	-	127 130	-	**127 130**
Credit default swaps	-	188	-	**188**
Foreign exchange contracts	-	42 207	-	**42 207**
	-	**247 589**	**-**	**247 589**
Total financial liabilities	**76 662 193**	**13 025 970**	**-**	**89 688 163**
LONG TERM ASSETS				
Financial assets				
Investments in unit trusts – QIC	-	29 182 448	-	**29 182 448**
	-	**29 182 448**	**-**	**29 182 448**

AS AT 30 JUNE 2011	QUOTED MARKET PRICES LEVEL 1 $000	OBSERVABLE MARKET INPUTS LEVEL 2 $000	UNOBSERVABLE MARKET INPUTS LEVEL 3 $000	TOTAL $000
CAPITAL MARKETS OPERATIONS				
Financial assets				
Onlendings	-	59 452 522	-	**59 452 522**
Money market deposits	1 240 993	824 657	-	**2 065 650**
Discount securities	4 955 871	317 486	-	**5 273 357**
Commonwealth and state securities	6 472 579	-	-	**6 472 579**
Floating rate notes	3 798 817	1 636	-	**3 800 453**
Term deposits	-	622 841	-	**622 841**
Other investments	15 354	1 333 570	-	**1 348 924**
	16 483 614	**62 552 712**	**-**	**79 036 326**
Derivative financial assets				
Interest rate swaps	-	41 093	-	**41 093**
Cross currency swaps	-	80 846	-	**80 846**
Forward rate agreements	-	71 987	-	**71 987**
Foreign exchange contracts	-	905	-	**905**
Credit default swaps	-	252	-	**252**
	-	**195 083**	**-**	**195 083**
Total financial assets	**16 483 614**	**62 747 795**	**-**	**79 231 409**
Financial liabilities				
Treasury notes	-	2 863 045	-	**2 863 045**
Commercial paper	-	1 805 413	-	**1 805 413**
Domestic bonds	63 994 471	1 440 760	-	**65 435 231**
Offshore bonds	1 894 009	-	-	**1 894 009**
Other bonds	-	232 349	-	**232 349**
Credit foncier loans	-	505	-	**505**
Medium-term notes	-	993 545	-	**993 545**
Client deposits	-	4 663 619	-	**4 663 619**
Repurchase agreements	-	898 394	-	**898 394**
	65 888 480	**12 897 630**	**-**	**78 786 110**
Derivative financial liabilities				
Interest rate swaps	-	23 743	-	**23 743**
Cross currency swaps	-	30 761	-	**30 761**
Forward rate agreements	-	558	-	**558**
Credit default swaps	-	363	-	**363**
Foreign exchange contracts	-	105 096	-	**105 096**
	-	**160 521**	**-**	**160 521**
Total financial liabilities	**65 888 480**	**13 058 151**	**-**	**78 946 631**
LONG TERM ASSETS				
Financial assets				
Investments in unit trusts – QIC	-	28 248 333	-	**28 248 333**
	-	**28 248 333**	**-**	**28 248 333**

23 Concentrations of borrowings and deposits

There are no material concentrations of borrowings as these funds are raised from diversified sources through various facilities disclosed under funding facilities in note 27. Managed fund depositors are principally Queensland Government sector entities. These deposits are invested in either QTC's Cash Fund or Working Capital Facility (11AM Fund) which have a large core of liquid investments. QTC maintains regular contact with these depositors and therefore has a good knowledge of their forecast liquidity requirements.

Deposits for stock lending and repurchase agreements are invested in the Working Capital Facility (11AM Fund) which can be liquidated daily at no cost.

24 Contingent liabilities

The following contingent liabilities existed at balance date:

- With regard to certain cross border lease transactions, QTC has assumed responsibility for a significant portion of the transaction risk. If certain events occur, QTC could be liable to make additional payments under the transactions. However external advice and history to date indicate the likelihood of these events occurring is remote. In addition, QTC has provided certain guarantees and indemnities to various participants in the cross border lease transactions. Expert external advisors consider, that unless exceptional and extreme circumstances arise, QTC will not be required to make a significant payment under these guarantees and indemnities.
- To facilitate the merger of the former State owned financial institutions, Suncorp and QIDC with Metway Bank Ltd, QTC provided guarantees relating to certain obligations of the Queensland Government and Suncorp General Insurance Ltd. These guarantees are supported by counter indemnities from the Treasurer on behalf of the State of Queensland.
- QTC has provided guarantees relating to the trading activities of Ergon Energy, a Queensland Government owned corporation, to the value of $121 million (2011 $260 million) which are supported by a counter indemnity.
- QTC has provided guarantees to the value of $181 million (2011 $206 million) to support the commercial activities of various Queensland public sector entities. In each case, a counter indemnity has been obtained by QTC from the appropriate public sector entity.
- QTC lends stock on the basis that there is a simultaneous commitment by the other party to return the stock on an agreed date. These loans are made to support the liquidity of QTC bonds in the financial markets and form part of QTC's total exposure to these financial institutions. The likelihood of a loss being incurred through default by a counterparty is remote due to the high credit quality of the counterparty and the short term nature of stock lending. At 30 June 2012 and 30 June 2011, no QTC inscribed stock was lent to other financial institutions.

25 Leases

LEASE COMMITMENTS – QTC AS LESSEE

QTC has entered into the following commercial leases:

- 123 Albert Street, Brisbane for a period of seven years, with an option to surrender the lease on 1 April 2017 or 1 April 2019. Lease payments include a 4% per annum escalation factor
- 61 Mary Street, Brisbane, for an initial term of ten years from 1 January 2003 to 31 December 2012, with an option to renew the lease after that date. Lease payments are increased to reflect market fluctuations
- Level 3, 120 Edward Street, Brisbane, for an initial term of four years and one month from 1 November 2008 to 30 November 2012, with an option to renew the lease after that date. Lease payments are increased to reflect CPI adjustments
- Level 11, 120 Edward Street, Brisbane, for an initial term of two years from 15 March 2011 to 14 March 2013, with an option to renew the lease after that date. Lease payments are increased to reflect CPI adjustments, and
- various motor vehicle lease agreements expiring within one to three years.

The future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	2012 $000	2011 $000
Leases payable		
Not longer than 1 year	**2 357**	2 629
Longer than 1 year but not longer than 5 years	**7 042**	1 310
	9 399	3 939

Contractual lease payments from August 2012 to the end of lease term on the Mary Street and Edward Street premises have been recognised in the accounts due to the commitment to relocate to 123 Albert Street in August 2012.

LEASING ARRANGEMENTS – QTC AS LESSOR

Operating leases

QTC has entered into operating leases as lessor under the whole of government lease facility which include buses, ferries and information technology equipment. These non-cancellable leases have remaining terms of between 1 and 10 years.

Future minimum rentals receivable under non-cancellable operating leases as at 30 June are as follows:

	2012 $000	2011 $000
Leases receivable		
Not longer than 1 year	**46 859**	39 403
Longer than 1 year but not longer than 5 years	**168 245**	151 144
Longer than 5 years	**44 800**	50 963
	259 904	241 510

Finance lease

QTC entered into a financial arrangement with a client comprising a headlease and sublease. Under the headlease, QTC made an upfront payment for the rights and limited obligations to a parcel of land for a term of 25 years ending 25 June 2034. Under the sublease, QTC acts as lessor and receives payments over the term.

Finance charges include interest and fees associated with the lease.

The lease is non-cancellable. Details of the minimum rental receivable under the finance lease are as follows:

	2012 $000	2011 $000
Lease receivable		
Not longer than 1 year	**3 132**	3 026
Longer than 1 year but not longer than 5 years	**13 663**	13 201
Longer than 5 years	**84 456**	88 051
	101 251	104 278
Less amounts representing finance charges (1)	**(55 734)**	(59 043)
	45 517	45 235

(1) A component of interest is capitalised until 30 June 2014.

26 Commitments

FORWARD STARTING FIXED RATE LOAN COMMITMENTS

QTC has entered into fixed rate loan agreements with certain clients to lock in interest rates on all or part of future borrowing requirements.

QTC's future borrowing commitments and the period in which funds are to be onlent are as follows:

	2012 $000	2011 $000
Not longer than 1 year	**1 579 449**	1 420 547
Longer than 1 year but not longer than 5 years	**1 833 782**	2 483 231
	3 413 231	3 903 778

OTHER COMMITMENTS

QTC has entered into an arrangement to purchase and construct a bus depot which will be leased to a public sector entity over a 25 year term.

QTC's future commitments under the construction arrangement are as follows:

	2012 $000	2011 $000
Not longer than 1 year	**25 351**	-
Longer than 1 year but not longer than 5 years	**6 486**	-
	31 837	-

27 Funding facilities

FACILITY	CURRENCY	LIMIT $M	FACE VALUE ON ISSUE 2012 $M	FACE VALUE ON ISSUE 2011 $M
Onshore facilities				
Domestic Benchmark Bond	AUD	Unlimited	**AUD 70 854**	AUD 63 109
Capital Indexed Bond	AUD	Unlimited	**AUD 793**	AUD 774
Treasury Note	AUD	Unlimited	**AUD 2 420**	AUD 2 878
Other	AUD	N/A	**AUD 561**	AUD 226
Offshore facilities				
Global Benchmark Bond	AUD	AUD 20 000	**AUD 1 537**	AUD 1 805
Euro Commercial Paper	Multicurrency	USD 10 000	**USD 1 496**	USD 1 541
US Commercial Paper	Multicurrency	USD 5 000	**USD 225**	USD 393
Euro Medium-Term Note	Multicurrency	USD 10 000	**USD 1 002**	USD 702
US Floating Rate Note	Multicurrency	USD 10 000	**USD 200**	-

28 Related party transactions

A related party is one that controls, or is controlled by, or under common control with the entity.

(a) Ultimate controlling entity

The immediate controlling entity and ultimate controlling entity is the Under Treasurer of Queensland as the Corporation Sole of QTC.

(b) Key management personnel

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

(c) Investments in associates and other companies

Details of investments in associates and other companies are set out in notes 31 and 32.

(d) Transactions with related parties

Transactions undertaken with related parties during the year include the provision of lending, investment, advisory, banking and company secretarial services. These transactions were in the normal course of business and on commercial terms and conditions. They exclude certain advisory and other services provided to Queensland Treasury, its associated companies and other related parties at no charge.

QTC may from time to time indirectly hold a small amount of investments in QTC Bonds via its investments in unit trusts managed by QIC. QTC does not have direct legal ownership of these assets and therefore no adjustment has been made in the financial statements.

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expenses recognised in respect of bad or doubtful debts due from related parties.

Contributions to superannuation funds on behalf of employees are disclosed in note 7.

The nature and amount of any individually significant transactions with related parties are disclosed below.

The following loans to Queensland Treasury Holdings Pty Ltd (QTH) were outstanding at balance date:

- a loan to purchase shares in QR National Pty Ltd (QRN). The market value of the loan was $2 262.587 million (2011 $2 186.445 million). Repayments of $61.090 million (2011 nil) were made during the year from QRN dividends received. Interest and fees charged totalled $137.232 million (2011 $71.059 million) which has been capitalised.
- a loan to purchase the rights to financial assets. The market value of the loans was $208.211 million (2011 $182.158 million). Repayments of $2.500 million (2011 $0.010 million) were made during the year. Interest and fees charged for the period totalled $28.563 million (2011 $10.407 million) which has been capitalised.

A Deed of Guarantee with respect to both facilities has been provided by the State of Queensland. Under the Deed, any shortfall of moneys payable in accordance with the terms of the facilities by QTH to QTC has been guaranteed. All other terms and conditions are consistent with QTC's general lending arrangements.

QTC has interests in other government related entities through various shareholdings. These entities hold deposits and loans with QTC which are provided on an arms length basis and are subject to QTC's normal terms and conditions.

29 Key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of QTC, being members of the Board and the Executive Management Team.

(a) QTC Capital Markets Board

The QTC Capital Markets Board is appointed by the Governor-in-Council, pursuant to section 10(2) of the *Queensland Treasury Corporation Act 1988*. Remuneration of the Board is reviewed on an annual basis by reference to the Consumer Price Index.

(b) Executive management

Executive management are those officers who are members of the Executive Management Team involved in the strategic direction, general management and control of the major activities of the business at an organisational level.

(c) Remuneration policy

QTC employees (including executive management) are employed on individual contracts and are appointed pursuant to the *Queensland Treasury Corporation Act 1988*.

QTC seeks to attract and retain high-calibre employees with a range of skills and competencies critical to the ongoing success of QTC and its achievement of business objectives. QTC's remuneration policy serves as an attraction and retention strategy and a mechanism to drive superior performance. Structured to comprise fixed and variable remuneration (ie, performance-based incentives), the remuneration system is designed to support its business and people strategies, and reflects the (financial institutions) market and the environment in which QTC operates.

QTC's fixed remuneration policy is reviewed annually and is benchmarked against data from the Financial Institutions Remuneration Group (FIRG) taking into account corporate, team and individual performance. Fixed remuneration levels are set around the FIRG market median data.

The incentive program provides an annual incentive plan and establishes clear alignment between performance and reward with line-of-sight accountability to corporate measures and incentive targets, allocated across three performance areas (corporate, team and individual). The integrated reward program supports the delivery of corporate performance goals in QTC's business strategy and operating environment and incentives are drawn from the following as appropriate:

- corporate performance which is measured against organisational key performance indicators and success factors
- team performance achievements and contribution to corporate outcomes, particularly value delivered to QTC's clients, and
- individual performance achievements with performance measures linked to team and corporate strategy and objectives.

The QTC Board approves the entitlement to, and the quantum of, fixed remuneration and performance incentives.

(d) Remuneration by category

	2012 $	2011 $
CAPITAL MARKETS OPERATIONS		
Directors		
Short-term employment benefits (1)	**368 216**	353 999
Post-employment benefits (3)	**20 827**	22 755
Total	**389 043**	376 754
Executive management		
Short-term employment benefits (2)	**3 022 115**	2 630 553
Post-employment benefits (3)	**140 540**	188 000
Total	**3 162 655**	2 818 553

(1) Directors' short-term benefits include board members fees, and in relation to the Chairman, also includes the provision of a car park.

(2) Executive management personnel's short-term benefits include wages, annual leave, long service leave, bonuses and non-monetary benefits such as car parks and motor vehicle benefits. Long service leave is included under short-term benefits as QTC has no minimum service periods before long service leave entitlements are accrued, and staff are eligible to take long service leave after eighteen months of service.

(3) Post-employment benefits include superannuation contributions made by the Corporation.

Amounts disclosed equal the amount expensed in the Statement of Comprehensive Income.

LONG TERM ASSETS

No remuneration is payable to the Directors of the Long Term Asset Advisory Board.

(i) Directors

Details of the nature and amount of each major element of the remuneration of the Directors are as follows:

	SHORT-TERM EMPLOYMENT BENEFITS		POST-EMPLOYMENT BENEFITS		TOTAL	
	2012 $	2011 $	2012 $	2011 $	2012 $	2011 $
Gerard Bradley– Chairman (1)	**9 214**	-	**829**	-	**10 043**	-
Stephen Rochester – Chairman (2)	**101 354**	94 555	**9 122**	8 027	**110 476**	102 582
Alex Beavers – Deputy Chairman	**45 979**	49 737	**-**	-	**45 979**	49 737
Gillian Brown	**39 576**	38 316	**3 562**	3 448	**43 138**	41 764
John Dawson (3)	**-**	41 784	**-**	3 760	**-**	45 544
Marian Micalizzi	**40 629**	41 784	**3 657**	3 760	**44 286**	45 544
Bill Shields	**44 856**	46 039	**-**	-	**44 856**	46 039
Shauna Tomkins	**40 629**	41 784	**3 657**	3 760	**44 286**	45 544
Neville Ide (4)	**45 979**	-	**-**	-	**45 979**	-

(1) Appointed as Chairman 10 May 2012
(2) Resigned 9 May 2012, (Chairman from 1 September 2010 until 9 May 2012)
(3) Resigned 30 June 2011
(4) Appointed 1 July 2011

(ii) Executive management

Details of the nature and amount of each major element of the remuneration of the Executive Management Team personnel are as follows:

	SHORT-TERM EMPLOYMENT BENEFITS (1)		POST-EMPLOYMENT BENEFITS	TOTAL
	BASE $	NON-MONETARY $	$	$
30 JUNE 2012				
Chief Executive	**558 265**	**30 246**	**15 721**	**604 232**
Executive General Manager (2)	**271 619**	**10 252**	**21 317**	**303 188**
General Manager Funding and Markets	**384 524**	**1 791**	**33 763**	**420 078**
General Manager Risk	**250 322**	**11 825**	**16 138**	**278 285**
General Manager Business Solutions	**243 648**	**13 927**	**16 458**	**274 033**
General Manager Strategic Partnering	**249 086**	**3 516**	**16 128**	**268 730**
General Manager Treasury Department	**244 199**	**3 420**	**21 015**	**268 634**
30 JUNE 2011				
Chief Executive (3)	313 576	5 132	17 000	335 708
Chief Executive (former) (4)	78 692	6 707	7 540	92 939
General Manager Funding and Markets	371 469	-	32 617	404 086
General Manager Financial Solutions (2)	228 063	9 962	28 555	266 580
General Manager Risk (5)	96 500	1 669	9 247	107 416
General Manager Risk (former) (6)	145 867	6 258	19 471	171 596
General Manager Business Solutions	229 034	11 354	20 110	260 498
General Manager Strategic Partnering	234 187	6 365	20 563	261 115
General Manager Treasury Department	221 853	6 365	32 897	261 115

(1) Short-term employment benefits exclude at-risk performance payments.

(2) Appointed Executive General Manager 19 July 2011 (previously General Manager Financial Solutions).

(3) Commenced 1 December 2010. Excludes payment for transition and relocation.

(4) Resigned 27 August 2010.

(5) Returned from secondment on 7 February 2011.

(6) Resigned 21 January 2011.

(iii) At-risk performance payments

The aggregate at-risk performance payments to all key executive management personnel are as follows:

	YEAR OF ASSESSMENT	
	2012 $	2011 $
Executive management	**745 475**	657 500

(e) Other transactions

There were no loans to/from key management personnel during the financial year.

30 Auditor's remuneration

The external auditor (Auditor-General of Queensland) does not provide any consulting services to QTC. Details of amounts paid or payable to the auditor of QTC (GST exclusive) are shown below:

	2012 $	2011 $
AUDIT SERVICES		
Audit of QTC	**404 050**	398 450

31 Investment in joint venture entity

ENTITY	PRINCIPAL ACTIVITIES	ORDINARY SHARE OWNERSHIP INTEREST		INVESTMENT CARRYING AMOUNT	
		2012	2011	2012	2011
Local Government Infrastructure Services Pty Ltd	Provides assistance to Queensland local governments in relation to infrastructure procurement	**50%**	50%	**50%**	50%

RESULTS OF JOINT VENTURE ENTITY

Summarised financial information of jointly controlled entity:

	2012 $000	2011 $000
STATEMENT OF COMPREHENSIVE INCOME		
Revenues	**59 475**	37 929
Expenses	**58 492**	37 219
Profit before income tax expense	**983**	710
Income tax expense	**-**	-
Net profit	**983**	710
BALANCE SHEET		
Current assets	**18 952**	12 369
Total assets	**18 952**	12 369
Current liabilities	**17 180**	10 428
Non-current liabilities	**-**	170
Total liabilities	**17 180**	10 598
Net assets	**1 772**	1 771

QTC's share of the joint venture entity's results and retained profits, including movements in the carrying amount of the investment consists of:

	2012 $000	2011 $000
SHARE OF POST-ACQUISITION RETAINED PROFITS		
Share of retained profits at 1 July	**875**	572
Share of net result	**491**	355
Dividend received	**(89)**	(52)
Share of retained profits at 30 June	**1 277**	875
MOVEMENTS IN CARRYING AMOUNT OF INVESTMENT		
Carrying amount at 1 July	**975**	672
Dividends received	**(89)**	(52)
Share of net result	**491**	355
Carrying amount at 30 June	**1 377**	975

32 Investments in companies

Investments in the following companies are held at cost:

NAME	PRINCIPAL ACTIVITIES	BENEFICIAL INTEREST 2012 %	VOTING RIGHTS 2012 %	BENEFICIAL INTEREST 2011 %	VOTING RIGHTS 2011 %
Queensland Treasury Holdings Pty Ltd (QTH)	Holding company for a number of subsidiaries and strategic investments on behalf of the State of Queensland	**40**	**24**	40	24
Queensland Lottery Corporation Pty Ltd (1)	Holds the lottery licence and trade marks on behalf of the State of Queensland	**40**	**24**	40	24
DBCT Holdings Pty Ltd (1, 2)	Owns & leases bulk coal port facilities in North Queensland	**40**	**24**	20	12
Queensland Airport Holdings (Mackay) Pty Ltd (1)	Owns the land for Mackay airport which it has leased under a 99 year lease arrangement	**40**	**24**	40	24
Queensland Airport Holdings (Cairns) Pty Ltd (1)	Owns the land for Cairns airport which it has leased under a 99 year lease arrangement	**40**	**24**	40	24
Brisbane Port Holdings Pty Ltd (1, 3)	Holds the land for Brisbane Ports which it has leased under a 99 year lease arrangement	**40**	**24**	40	24
City North Infrastructure Pty Ltd (1)	Manages the procurement of the Airport Link and Northern Busway projects	**20**	**12**	20	12
Sunshine Locos Pty Ltd (4)	Dormant	**50**	**50**	50	50

(1) Beneficial interest and voting rights in the Company are held indirectly through QTC's holdings in QTH.

(2) Remaining shares were transferred to QTH on 1 July 2011 increasing the beneficial interest to 40% and voting rights to 24%.

(3) 100% ownership transferred to QTH on 5 April 2011.

(4) Sunshine Locos Pty Ltd has not been consolidated into these statements due to its immaterial and dormant status.

33 Dividends

QTC is required to pay dividends to the Queensland Government as the Treasurer determines from time to time. No dividend was paid to the State of Queensland during the year (2011 $150 million).

34 Events subsequent to balance date

There are no other matters or circumstances which have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of QTC, the results of those operations or the state of affairs of QTC in future years.

CERTIFICATE OF THE
QUEENSLAND TREASURY CORPORATION

The foregoing general purpose financial statements have been prepared in accordance with the *Financial Accountability Act 2009* and other prescribed requirements.

The Directors draw attention to note 2(a) to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

We certify that in our opinion:

(i) the prescribed requirements for establishing and keeping the accounts have been complied with in all material respects

(ii) the foregoing annual financial statements have been drawn up so as to present a true and fair view of Queensland Treasury Corporation's assets and liabilities, financial position and financial performance for the year ended 30 June 2012, and

(iii) the management report includes a fair review of the information required under article 3(2)(c) of the Law of January 11, 2009 on transparency requirements for issuers of securities on the Luxembourg Stock Exchange.

Signed in accordance with a resolution of the Directors.

G P BRADLEY
Chairman

P C NOBLE
Chief Executive

Brisbane
19 August 2012

INDEPENDENT AUDITOR'S REPORT
TO QUEENSLAND TREASURY CORPORATION

Report on the Financial Report

I have audited the accompanying financial report of Queensland Treasury Corporation, which comprises the balance sheet as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and certificates given by the Chairman and Chief Executive.

The Corporation Sole's Responsibility for the Financial Report

The Corporation Sole is responsible for the preparation of the financial report that gives a true and fair view in accordance with prescribed accounting requirements identified in the *Financial Accountability Act 2009* and the *Financial and Performance Management Standard 2009*, including compliance with Australian Accounting Standards. The Corporation Sole's responsibility also includes such internal control as the Corporation Sole determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2(a), the Corporation Sole also states, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control, other than in expressing an opinion on compliance with prescribed requirements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Corporation, as well as evaluating the overall presentation of the financial report including any mandatory financial reporting requirements approved by the Treasurer for application in Queensland.

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

Independence

The *Auditor-General Act 2009* promotes the independence of the Auditor-General and all authorised auditors. The Auditor-General is the auditor of all Queensland public sector entities and can be removed only by Parliament.

The Auditor-General may conduct an audit in any way considered appropriate and is not subject to direction by any person about the way in which audit powers are to be exercised. The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters which in the Auditor-General's opinion are significant.

Opinion

In accordance with s.40 of the *Auditor-General Act 2009* –

(a) I have received all the information and explanations which I have required; and

(b) in my opinion –

  (i) the prescribed requirements in relation to the establishment and keeping of accounts have been complied with in all material respects; and

  (ii) the financial report presents a true and fair view, in accordance with the prescribed accounting standards, of the transactions of the Queensland Treasury Corporation for the financial year 1 July 2011 to 30 June 2012 and of the financial position as at the end of that year; and

  (iii) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2(a).

Other Matters – Electronic Presentation of the Audited Financial Report

This auditor's report relates to the financial report of Queensland Treasury Corporation for the year ended 30 June 2012. Where the financial report is included on Queensland Treasury Corporation's website the Corporation is responsible for the integrity of Queensland Treasury Corporation's website and I have not been engaged to report on the integrity of Queensland Treasury Corporation's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements or otherwise included with the financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.

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

ASSISTANT AUDITOR-GENERAL
20 AUG 2012
QUEENSLAND AUDIT OFFICE

K JOHNSON FCA
(as Delegate of the
Auditor-General of Queensland)

Queensland Audit Office
Brisbane

MANAGEMENT REPORT
FOR THE YEAR ENDED 30 JUNE 2012

Review of Operations

QTC made an operating profit after tax for the year ended 30 June 2012 of A$234.1 million consisting of the following operating segment results:

- **Capital Markets Operations**

During the period from 1 July 2011 to 30 June 2012, QTC continued in its ordinary course of business as the State of Queensland's central financing authority and corporate treasury services provider. The operating profit after tax for the year ended 30 June 2012 for the Capital Markets Operations segment was A$46.9 million.

- **Long Term Assets**

QTC holds a portfolio of assets which were transferred to QTC by the State Government under an administrative arrangement. These assets are the investments of QTC's Long Term Assets segment and were accumulated to fund superannuation and other long-term obligations of the State such as insurance and long service leave. In return, QTC issued to the State fixed rate notes which has resulted in the State receiving a fixed rate of return on the notes, while QTC bears the impact of fluctuations in the value and returns on the asset portfolio.

QTC made an operating profit after tax of A$187.2 million for the Long Term Assets segment. The accumulated net losses incurred by the Long Term Assets segment to date have no impact on QTC's capacity to meet its obligations as there is no cash flow effect for QTC. In addition, under the *Queensland Treasury Corporation Act 1988*, any losses of the Corporation shall be the responsibility of the Consolidated Fund of the Queensland Government.

Principal risks and uncertainties

Volatile economic and financial market conditions continued across the globe, as several weaker than expected growth outcomes led the market to question the outlook for the global economy. This uncertainty was accentuated by adverse developments within Europe's sovereign debt crisis and resulted in frequent periods of market instability. With a long list of structural problems facing the global economy, volatility in the financial markets looks set to continue for the foreseeable future. These concerns are unlikely to dissipate in the near future, posing sustained challenges in our market environment into the next financial year.

G P BRADLEY
Chairman

P C NOBLE
Chief Executive

Brisbane
19 August 2012