Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

CONTENTS

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2014

	NOTE	2014 $000	2013 $000
CAPITAL MARKETS OPERATIONS			
Net interest income			
Interest income	4	**6 914 445**	3 529 909
Interest expense	4	**(6 814 855)**	(3 326 556)
		99 590	203 353
Other income			
Fees	5	**67 164**	69 112
Lease income		**49 983**	48 321
Amortisation of cross border lease deferred income		**14 322**	6 438
Gain on sale of property, plant and equipment		**1 159**	-
		132 628	123 871
Expenses			
Administration expenses	6	**(64 095)**	(57 159)
Depreciation on leased assets		**(33 292)**	(31 808)
Loss on sale of property, plant and equipment		**-**	(9)
Other expenses		**-**	26
		(97 387)	(88 950)
Share of associate's net (loss)/profit		**(140)**	521
Loss on transfer of associate		**(1 006)**	-
		(1 146)	521
Profit from capital markets operations before income tax		**133 685**	238 795
Income tax expense	7	**(14 465)**	(15 911)
Profit from capital markets operations after income tax		**119 220**	222 884
LONG TERM ASSETS			
Net return from investments in long term assets			
Net change in fair value of unit trusts		**5 386 325**	3 370 042
Interest on fixed rate notes		**(2 166 897)**	(2 302 032)
Management fees		**(91 471)**	(77 662)
Profit from long term assets		**3 127 957**	990 348
Total net profit for the year after tax		**3 247 177**	1 213 232
Total comprehensive income attributable to the owner		**3 247 177**	1 213 232
Total comprehensive income derived from:			
Capital markets operations	3	**119 220**	222 884
Long term assets	3	**3 127 957**	990 348
Total comprehensive income		**3 247 177**	1 213 232

The notes on pages 25 to 56 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 2014

	NOTE	2014 $000	2013 $000
ASSETS			
Capital markets operations			
Cash		**546**	197
Receivables	8	**4 384**	3 568
Financial assets at fair value through profit or loss	9	**14 698 901**	20 194 045
Derivative financial assets	10	**252 543**	788 461
Onlendings	11	**85 609 405**	79 118 832
Property, plant and equipment	12	**227 714**	326 270
Investments accounted for using the equity method	29	**-**	1 407
Intangible assets	13	**2 118**	4 189
Deferred tax asset	7	**3 134**	2 132
		100 798 745	100 439 101
Long term assets			
Financial assets at fair value through profit or loss	9	**33 431 249**	29 767 721
		33 431 249	29 767 721
Total Assets		**134 229 994**	130 206 822
LIABILITIES			
Capital markets operations			
Payables	14	**148 167**	27 218
Derivative financial liabilities	10	**344 827**	167 726
Financial liabilities at fair value through profit or loss			
- Interest bearing liabilities	15	**94 026 880**	93 274 588
- Deposits	15	**5 477 942**	6 127 695
Other liabilities	16	**90 676**	130 841
		100 088 492	99 728 068
Long term assets			
Financial liabilities at amortised cost	17	**31 983 174**	31 447 603
		31 983 174	31 447 603
Total Liabilities		**132 071 666**	131 175 671
Net Assets		**2 158 328**	(968 849)
EQUITY			
Capital markets operations			
Retained surplus		**710 253**	711 033
		710 253	711 033
Long term assets			
Retained surplus/(deficit)		**1 448 075**	(1 679 882)
		1 448 075	(1 679 882)
Total Equity		**2 158 328**	(968 849)

The notes on pages 25 to 56 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2014

	NOTE	CAPITAL MARKETS OPERATIONS	LONG TERM ASSETS	
		RETAINED SURPLUS $000	RETAINED SURPLUS $000	TOTAL EQUITY $000
Balance at 1 July 2012		488 149	(2 670 230)	(2 182 081)
Profit for the year		222 884	990 348	1 213 232
Balance at 30 June 2013		711 033	(1 679 882)	(968 849)
Balance at 1 July 2013		**711 033**	**(1 679 882)**	**(968 849)**
Profit for the year		**119 220**	**3 127 957**	**3 247 177**
Transactions with owners in their capacity as owners: Dividends provided for or paid	31	**(120 000)**	**-**	**(120 000)**
Balance at 30 June 2014		**710 253**	**1 448 075**	**2 158 328**

The notes on pages 25 to 56 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2014

	NOTE	2014 $000	2013 $000
CAPITAL MARKETS OPERATIONS			
Cash flows from operating activities			
Interest received from onlendings		**4 181 238**	3 995 758
Interest received from investments		**807 729**	988 338
Interest received - other		**50 089**	49 961
Fees received		**66 934**	68 975
GST paid to suppliers		**(9 050)**	(14 175)
GST refunds from ATO		**10 048**	17 021
GST paid to ATO		**(6 355)**	(6 236)
GST received from clients		**6 357**	6 250
Interest paid on interest-bearing liabilities		**(4 442 515)**	(4 006 685)
Interest paid on deposits		**(172 857)**	(169 177)
Administration expenses paid		**(60 090)**	(48 104)
Income tax paid		**(15 635)**	(8 588)
Net cash provided by operating activities	18	**415 893**	873 338
Cash flows from investing activities			
Proceeds from sale of investments		**35 689 977**	40 610 160
Payments for investments		**(30 471 584)**	(43 718 896)
Net onlendings		**(4 212 638)**	(8 081 846)
Payments for property, plant and equipment		**(11 245)**	(74 150)
Payments for intangibles		**(252)**	(1 166)
Proceeds from sale of property, plant and equipment		**4 595**	13
Dividend received		**261**	491
Net cash provided by / (used in) investing activities		**999 114**	(11 265 394)
Cash flows from financing activities			
Proceeds from interest-bearing liabilities		**55 621 832**	58 192 475
Repayment of interest-bearing liabilities		**(56 386 648)**	(48 850 999)
Net deposits		**(649 842)**	1 050 034
Net cash (used in) / provided by financing activities		**(1 414 658)**	10 391 510
Net increase / (decrease) in cash held		**349**	(546)
Cash at 1 July		**197**	743
Net cash at 30 June		**546**	197
LONG TERM ASSETS			
No external cashflow is generated from the long term assets (refer notes 1 and 3).			

The notes on pages 25 to 56 are an integral part of these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

CONTENTS

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. However QTC's Capital Markets Operations can generate a profit largely reflecting the interest earned from the investment of its equity. In undertaking its Capital Markets activities, QTC maintains 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 note 3).

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 2014 have been prepared in accordance with the requirements of the *Financial Accountability Act 2009* and Australian Accounting Standards adopted by the Australian Accounting Standards Board.

Compliance with International Financial Reporting Standards: QTC's financial statements comply with International Financial Reporting Standards (IFRS) 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 as if it is a for-profit entity.

New accounting standards: A number of new and amended accounting standards were mandatory from 1 July 2013. The affected policies and standards including the impact on the financial statements are as follows:

- Principles of Consolidation - new standards AASB 10 *Consolidated Financial Statements* and AASB 11 *Joint Arrangements*. AASB 10 changes the definition of control based on the entity's exposure to the rights and variability of returns through its power to direct the activities of an investee. AASB 11 requires joint ventures to be classified based on the contractual rights and obligations and where each party has rights to the net assets of the arrangement to be accounted for using the equity method. QTC has reviewed its investments in other entities and no adjustments to the carrying amounts in the financial statements were required.
- Revised AASB 119 *Employee Benefits* - AASB 119 has changed the way employee benefits are measured now requiring these to be based on when the amount is expected to be settled. Previously this was based on when the amount was due. The impact of this change is immaterial.
- AASB 13 *Fair Value Measurement* which is applicable for the first time this year establishes a single source of guidance for fair value measurement and disclosures about fair value. Other than additional disclosures, the application of AASB 13 does not have any material impact on the amounts recognised in the financial statements.
- AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* has removed the specific requirements for reporting individual key management personnel disclosures.
- AASB 7 *Financial Instruments: Disclosures* regarding the right to offset and related arrangements (such as collateral requirements) for financial instruments under an enforceable master netting arrangement or similar arrangements. This has added new financial risk management disclosures (refer note 19).

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 material changes from these standards and interpretations are set out below.

Effective for annual periods beginning on or after 1 January 2017:

- AASB 9 *Financial Instruments* will replace AASB 139 *Financial Instruments: Recognition and measurement*. 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. Therefore this is not expected to change the current practice of measuring changes in fair value movements of financial instruments through profit or loss.

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 (LGIS) was 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 adjusted for the realisable value where the asset is held for sale (refer note 29). At 1 July 2014, QTC transferred its shares in LGIS to Local Government Association of Queensland for nominal consideration. QTC has written down its investment in LGIS at 30 June 2014 to reflect the assets recoverable value at that date.

(c) Investments in other companies

Investments in other companies are accounted for at cost (refer note 30). 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 and Trade holds a 60 per cent beneficial interest in QTH. The remaining 40 per cent is held by QTC for and on behalf of the Under Treasurer as Corporation Sole of QTC.

QTC does not apply the equity method to its investment in QTH as it does not have power over the entity, exposure or rights to variable returns or power to affect those returns.

(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 which is the settlement date of the transaction.

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 exit 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 with consideration for the effect of counterparty credit.

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:

- 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 (t)).

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 cash, Australian equities, international equities and other diversified products (refer note 9). 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.
- **Deposits** Client deposits are accepted to either the Working Capital Facility (11AM Fund) or the QTC 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 have a term of 50 years. Interest on the fixed rate notes is capitalised monthly and the rate is reviewed annually.

(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 (refer note 19).

(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 23).

(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.

(o) Fee income

Management 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 include 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.

Depreciation rates for each class of asset are as follows:

ASSET CLASS	DEPRECIATION RATE
Land	0%
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.

(t) 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 are 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.

(u) 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 lease incentives, accruals of expenditure, employee benefits and depreciation charged on property, plant and equipment.

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.

(v) Employee benefits

A liability is recognised for benefits accruing to employees in respect of salaries, annual leave, long service leave and short-term incentives 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 service and the obligation is capable of being measured reliably. These are measured on an undiscounted basis where the amounts are expected to be paid within the next 12 months. For amounts where the payment date is expected to exceed 12 months such as long service leave, future pay increases are projected and then discounted using a high quality bond rate.

Salaries, short-term incentives, annual and long service leave unpaid at reporting date are recognised as a liability 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.

(w) Rounding

Amounts have been rounded to the nearest thousand dollars except for note 25, which is rounded to the nearest million dollars, and notes 27 and 28, 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

The preparation of the financial statements requires the use of accounting estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates may be significant to the financial statements are shown below:

Fair value of financial assets and financial liabilities: Financial assets and financial liabilities at fair value through profit or loss are measured at fair value by reference to quoted market prices where available. The fair value of financial instruments that are not traded in an active market is determined by reference to market quotes for similar instruments or by use of valuation techniques. Judgement may be needed in selecting valuation methods or assumptions where an active market quote is not available.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

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 2014			FOR THE YEAR ENDED 30 JUNE 2013		
	Capital markets operations $000	Long term assets $000	Total $000	Capital markets operations $000	Long term assets $000	Total $000
Income						
Interest income	**6 914 445**	**-**	**6 914 445**	3 529 909	-	3 529 909
Net change in fair value of unit trusts	**-**	**5 386 325**	**5 386 325**	-	3 370 042	3 370 042
Other income	**132 628**	**-**	**132 628**	123 871	-	123 871
Total income	**7 047 073**	**5 386 325**	**12 433 398**	3 653 780	3 370 042	7 023 822
Expenses						
Interest expense	**6 814 855**	**2 166 897**	**8 981 752**	3 326 556	2 302 032	5 628 588
Depreciation on leased assets	**33 292**	**-**	**33 292**	31 808	-	31 808
Management fees	**-**	**91 471**	**91 471**	-	77 662	77 662
Other expenses	**64 095**	**-**	**64 095**	57 142	-	57 142
Total expenses	**6 912 242**	**2 258 368**	**9 170 610**	3 415 506	2 379 694	5 795 200
Net (loss)/ profit from associate	**(1 146)**	**-**	**(1 146)**	521	-	521
Profit before income tax	**133 685**	**3 127 957**	**3 261 642**	238 795	990 348	1 229 143
Income tax expense	**14 465**	**-**	**14 465**	15 911	-	15 911
Profit for the year	**119 220**	**3 127 957**	**3 247 177**	222 884	990 348	1 213 232

SEGMENT ASSETS AND LIABILITIES	30 JUNE 2014			30 JUNE 2013		
	Capital markets operations $000	Long term assets $000	Total $000	Capital markets operations $000	Long term assets $000	Total $000
Assets						
Onlendings	**85 609 405**	**-**	**85 609 405**	79 118 832	-	79 118 832
Financial assets at FVPL (1)	**14 698 901**	**33 431 249**	**48 130 150**	20 194 045	29 767 721	49 961 766
Other assets	**490 439**	**-**	**490 439**	1 126 224	-	1 126 224
Total assets	**100 798 745**	**33 431 249**	**134 229 994**	100 439 101	29 767 721	130 206 822
Liabilities						
Financial liabilities at FVPL (1)	**99 504 822**	**-**	**99 504 822**	99 402 283	-	99 402 283
Financial liabilities at amortised cost	**-**	**31 983 174**	**31 983 174**	-	31 447 603	31 447 603
Other liabilities	**583 670**	**-**	**583 670**	325 785	-	325 785
Total liabilities	**100 088 492**	**31 983 174**	**132 071 666**	99 728 068	31 447 603	131 175 671
Net assets	**710 253**	**1 448 075**	**2 158 328**	711 033	(1 679 882)	(968 849)

(1) Includes non-derivative financial instruments at fair value through profit or loss

SEGMENT EQUITY	30 JUNE 2014			30 JUNE 2013		
	Capital markets operations $000	Long term assets $000	Total $000	Capital markets operations $000	Long term assets $000	Total $000
Equity 1 July	**711 033**	**(1 679 882)**	**(968 849)**	488 149	(2 670 230)	(2 182 081)
Profit after tax	**119 220**	**3 127 957**	**3 247 177**	222 884	990 348	1 213 232
Dividends provided for	**(120 000)**	**-**	**(120 000)**	-	-	-
Equity 30 June	**710 253**	**1 448 075**	**2 158 328**	711 033	(1 679 882)	(968 849)

4 INTEREST INCOME AND INTEREST EXPENSE FROM CAPITAL MARKETS OPERATIONS

	FOR THE YEAR ENDED 30 JUNE 2014			
	INTEREST $000	NET UNREALISED GAIN/LOSS $000	NET REALISED GAIN/LOSS $000	TOTAL INTEREST $000
Interest income from financial assets				
Money market deposits	33 028	2	-	**33 030**
Discount securities	132 225	(1 057)	867	**132 035**
Commonwealth and state securities	47 410	35 525	2 755	**85 690**
Floating rate notes	147 548	(38)	8 718	**156 228**
Term deposits	23 870	(136)	-	**23 734**
Other investments	66 303	3 172	1 784	**71 259**
Onlendings *	4 175 727	2 201 057	-	**6 376 784**
Interest income from derivatives				
Forward rate agreements	-	(47 674)	76 326	**28 652**
Cross currency swaps	11 838	(4 808)	-	**7 030**
Credit default swaps	3	-	-	**3**
Total interest income	**4 637 952**	**2 186 043**	**90 450**	**6 914 445**
Interest expense from financial liabilities				
Treasury notes	50 561	62	57	**50 680**
Commercial paper	14 399	(10 471)	-	**3 928**
AUD Bonds	3 392 511	1 987 895	686 977	**6 067 383**
Floating rate notes	58 017	3 195	22	**61 234**
Global AUD Bonds	31 556	(24 966)	28 612	**35 202**
Medium-term notes	55 748	49 054	-	**104 802**
Deposits	173 093	(147)	-	**172 946**
Interest expense from derivatives				
Interest rate swaps	(5 847)	196 264	-	**190 417**
Cross currency swaps	37 119	(77 093)	-	**(39 974)**
Futures contracts	-	-	46 986	**46 986**
Foreign exchange contracts	-	87 063	-	**87 063**
Other				
Registration and issue costs	6 339	-	-	**6 339**
Commissions on futures	1 493	-	-	**1 493**
Commonwealth Government Guarantee Fee	26 356	-	-	**26 356**
Total interest expense	**3 841 345**	**2 210 856**	**762 654**	**6 814 855**

** 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. 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 2014, interest rates fell across all terms, resulting in higher interest income compared to the prior year when long term interest rates rose and short term interest rates fell.*

4 INTEREST INCOME AND INTEREST EXPENSE FROM CAPITAL MARKETS OPERATIONS CONTINUED

	FOR THE YEAR ENDED 30 JUNE 2013			
	INTEREST $000	NET UNREALISED GAIN/LOSS $000	NET REALISED GAIN/LOSS $000	TOTAL INTEREST $000
Interest income from financial assets				
Money market deposits	25 199	1	-	**25 200**
Discount securities	176 159	75	3 649	**179 883**
Commonwealth and state securities	198 725	(130 415)	94 417	**162 727**
Floating rate notes	186 691	50 134	8 030	**244 855**
Term deposits	58 878	(1 091)	-	**57 787**
Other investments	61 512	27 286	1 223	**90 021**
Onlendings	3 908 008	(1 164 924)	-	**2 743 084**
Interest income from derivatives				
Forward rate agreements	-	(75 561)	125 104	**49 543**
Cross currency swaps	15 862	(39 386)	-	**(23 524)**
Credit default swaps	136	197	-	**333**
Total interest income	**4 631 170**	**(1 333 684)**	**232 423**	**3 529 909**
Interest expense from financial liabilities				
Treasury notes	71 167	(1 498)	8	**69 677**
Commercial paper	10 855	532 545	-	**543 400**
AUD Bonds	3 579 052	(1 206 732)	828 012	**3 200 332**
Floating rate notes	11 809	126	-	**11 935**
Global AUD Bonds	56 413	(12 009)	11 429	**55 833**
Medium-term notes	49 832	(26 740)	(990)	**22 102**
Deposits	169 685	11	-	**169 696**
Interest expense from derivatives				
Interest rate swaps	(56 658)	(3 358)	-	**(60 016)**
Cross currency swaps	44 567	(98 997)	-	**(54 430)**
Futures contracts	-	-	(227 061)	**(227 061)**
Foreign exchange contracts	-	(452 436)	889	**(451 547)**
Other				
Registration and issue costs	8 339	-	-	**8 339**
Commissions on futures	1 490	-	-	**1 490**
Commonwealth Government Guarantee Fee	36 806	-	-	**36 806**
Total interest expense	**3 983 357**	**(1 269 088)**	**612 287**	**3 326 556**

5 FEES

	2014 $000	2013 $000
Fees – management [1]	**65 088**	67 366
Fees – professional & other services	**2 076**	1 746
	67 164	69 112

(1) Management fees represent income earned from the management of QTC's onlendings and deposits. A further amount of $6.604 million (2013 $7.958 million), derived from fees on certain managed funds and pools is included under interest income as it forms part of the interest rate applied.

6 ADMINISTRATION EXPENSES

	2014 $000	2013 $000
Salaries and related costs	**37 352**	33 113
Superannuation contributions	**3 649**	3 389
Contractors	**2 280**	2 313
Consultants' fees (i)	**3 676**	2 099
Outsourced services	**2 236**	2 131
Depreciation on property, plant and equipment	**1 904**	2 209
Amortisation on intangible assets	**2 167**	2 059
Computer charges	**2 489**	2 563
Property charges	**3 650**	3 574
External audit fees	**414**	369
Internal audit fees	**486**	479
Staff training and development	**649**	417
Investor and market relations program	**450**	542
Telephone, postage, printing and stationery	**388**	474
Other administration expenses	**2 305**	1 428
	64 095	57 159
(i) Consultants' fees		
Professional, technical and legal	**1 508**	753
Information technology	**1 372**	482
Finance and accounting	**231**	258
Human resource management	**284**	232
Other	**281**	374
	3 676	2 099

7 INCOME TAX EXPENSE

	2014 $000	2013 $000
Current tax	**15 467**	15 635
Deferred tax	**(1 002)**	276
Total income tax expense recognised in the current year	**14 465**	15 911
Deferred income tax included in income tax expense comprises:		
(Increase)/decrease in deferred tax assets	**(1 002)**	306
Decrease in deferred tax liabilities	**-**	(30)
	(1 002)	276
Numerical reconciliation between income tax expense and pre-tax accounting profit		
Profit for the year	**3 261 642**	1 229 143
Less profit from non-taxable pools:		
Capital markets operations	**(86 886)**	(185 788)
Long term assets	**(3 127 957)**	(990 348)
Operating profit from taxable pools	**46 799**	53 007
Tax at the Australian tax rate of 30% on taxable pools	**14 040**	15 902
Effect of non-deductible items:		
Share of loss/ (profit) from non-taxable entity	**42**	(156)
Write down of investment in non-taxable entity	**302**	-
Other	**81**	165
Income tax expense	**14 465**	15 911
Income tax assets and liabilities at 30 June relates to the following:		
Deferred tax assets		
Accruals	**72**	64
Employee benefits	**2 076**	2 023
Property, plant and equipment	**67**	12
Provisions	**919**	33
	3 134	2 132
Current tax liability – income tax payable	**15 467**	15 635
Tax liabilities	**15 467**	15 635

8 RECEIVABLES

	2014 $000	2013 $000
GST receivable	**-**	643
Sundry debtors	**3 178**	1 372
Prepayments	**1 079**	1 309
Operating lease receivables	**127**	244
	4 384	3 568

9 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

CAPITAL MARKETS OPERATIONS	2014 $000	2013 $000
Money market deposits	**2 674 416**	1 717 477
Discount securities	**4 738 190**	7 743 703
Commonwealth and state securities (1)	**1 151 874**	3 642 350
Floating rate notes	**4 105 618**	4 314 169
Term deposits	**729 476**	552 625
Other investments	**1 299 327**	2 223 721
	14 698 901	20 194 045

(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.

The total includes investments made to manage:

- deposits of $5,477.942 million (2013 $6,127.695 million)
- surpluses of $710.253 million (2013 $711.033 million), and
- cross border lease deferred income of $37.946 million (2013 $52.267 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.

As at 30 June 2014, $5,083.1 million (2013 $8,354.4 million) of financial assets will mature after more than 12 months.

LONG TERM ASSETS	2014 $000	2013 $000
INVESTMENTS IN UNIT TRUSTS AND OTHER HOLDINGS – QIC:		
Movement during the year:		
Opening balance	**29 767 721**	29 182 448
Net withdrawals	**(1 722 797)**	(2 784 769)
Net change in fair value of unit trusts	**5 386 325**	3 370 042
Closing balance	**33 431 249**	29 767 721
Comprised of the following asset classes:		
Growth assets		
Equities	**4 967 124**	5 360 520
Diversified alternatives and other	**6 134 448**	4 764 906
Unlisted assets		
Infrastructure	**8 199 928**	6 242 689
Private equities	**1 903 027**	1 487 340
Real estate	**1 938 863**	1 489 033
Defensive assets		
Fixed interest	**584 281**	893 420
Cash	**9 703 578**	9 529 813
	33 431 249	29 767 721

Prior year comparatives have been restated to reflect the revised asset classes.

10 DERIVATIVE FINANCIAL ASSETS AND DERIVATIVE FINANCIAL LIABILITIES

	2014 $000	2013 $000
DERIVATIVE FINANCIAL ASSETS		
Interest rate swaps	**32 701**	149 229
Cross currency swaps	**180 966**	136 217
Forward rate agreements	**38 704**	86 378
Foreign exchange contracts	**172**	416 637
	252 543	788 461
DERIVATIVE FINANCIAL LIABILITIES		
Interest rate swaps	**167 855**	51 266
Cross currency swaps	**112 149**	116 402
Foreign exchange contracts	**64 823**	58
	344 827	167 726
Net derivatives	**(92 284)**	620 735

As at 30 June 2014, $590.4 million (2013 $89.3 million) of these derivatives have maturity dates exceeding 12 months.

11 ONLENDINGS

	2014 $000	2013 $000
Government departments and agencies	**42 933 073**	38 258 994
Government owned corporations	**19 053 525**	18 667 584
Local governments	**7 478 377**	6 632 514
Statutory bodies	**15 680 569**	14 979 661
QTC related entities	**157 520**	321 179
Other bodies	**306 341**	258 900
	85 609 405	79 118 832

As at 30 June 2014, $84,531.6 million (2013 $77,520.0 million) of repayments are expected to be received after more than 12 months.

12 PROPERTY, PLANT AND EQUIPMENT

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

DESCRIPTION	LAND & BUILDINGS (1) $000	INFORMATION TECHNOLOGY AND OFFICE EQUIPMENT $000	PLANT AND MACHINERY (2) $000	TOTAL $000
GROSS CARRYING AMOUNT				
Balance at 1 July 2012	32 682	11 089	322 953	366 724
Acquisitions	-	5 700	40 413	46 113
Disposals	-	(7 108)	-	(7 108)
Work in progress	28 063	-	-	28 063
Balance at 30 June 2013	60 745	9 681	363 366	433 792
Balance at 1 July 2013	**60 745**	**9 681**	**363 366**	**433 792**
Acquisitions	**10 580**	**575**	**245**	**11 400**
Disposals	**(71 325)**	**(54)**	**(8 813)**	**(80 192)**
Work in progress	**-**	**-**	**-**	**-**
Balance at 30 June 2014	**-**	**10 202**	**354 798**	**365 000**
ACCUMULATED DEPRECIATION				
Balance at 1 July 2012	-	7 670	72 923	80 593
Disposals	-	(7 086)	-	(7 086)
Depreciation expense	-	2 206	31 809	34 015
Balance at 30 June 2013	-	2 790	104 732	107 522
Balance at 1 July 2013	**-**	**2 790**	**104 732**	**107 522**
Disposals	**-**	**(54)**	**(5 378)**	**(5 432)**
Depreciation expense	**-**	**1 904**	**33 292**	**35 196**
Balance at 30 June 2014	**-**	**4 640**	**132 646**	**137 286**
Net book value 30 June 2013	60 745	6 891	258 634	326 270
Net book value 30 June 2014	**-**	**5 562**	**222 152**	**227 714**

(1) Land and buildings included land purchased and costs incurred to construct a bus depot which is subject to a 25 year leasing arrangement. During the year, QTC derecognised land and buildings with a carrying value of $71.325 million which now forms part of a finance lease 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.

13 INTANGIBLE ASSETS

	2014 $000	2013 $000
GROSS CARRYING AMOUNT		
Balance at 1 July	**9 098**	8 128
Acquisitions	**97**	1 141
Disposals	**(103)**	(171)
Balance at 30 June	**9 092**	9 098
ACCUMULATED DEPRECIATION		
Balance at 1 July	**4 909**	3 018
Disposals	**(103)**	(171)
Amortisation	**2 168**	2 062
Balance at 30 June	**6 974**	4 909
Net book value 30 June (1)	**2 118**	4 189

(1) The amount of fully depreciated software at balance date totalled $2.679 million (2013 $2.607 million).

14 PAYABLES

	2014 $000	2013 $000
Administration expenses	**11 858**	10 868
Dividends payable	**120 000**	-
Tax payable	**15 467**	15 635
GST payable	**357**	-
Other creditors	**485**	715
	148 167	27 218

15 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2014 $000	2013 $000
INTEREST-BEARING LIABILITIES – CAPITAL MARKETS OPERATIONS		
Short-term		
Treasury notes	**2 152 166**	1 237 105
Commercial paper	**2 223 522**	4 013 185
	4 375 688	5 250 290
Long-term		
AUD Bonds	**83 123 358**	85 167 737
Floating rate notes	**4 433 159**	350 884
Global AUD Bonds (1)	**766 982**	1 263 077
Medium-term notes	**1 104 502**	1 056 418
Other	**223 191**	186 182
	89 651 192	88 024 298
Total interest-bearing liabilities	**94 026 880**	93 274 588

(1) Consists of AUD denominated 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 19 (a)(i).

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

As at 30 June 2014, $78,451.9 million (2013 $78,662.2 million) of debt securities are expected to be settled after more than 12 months.

15 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 2014	FAIR VALUE $000	REPAYMENT AT MATURITY $000	DIFFERENCE $000
INTEREST-BEARING LIABILITIES – CAPITAL MARKETS OPERATIONS			
Short-term			
Treasury notes	**2 152 166**	**2 164 000**	**(11 834)**
Commercial paper	**2 223 522**	**2 224 995**	**(1 473)**
	4 375 688	**4 388 995**	**(13 307)**
Long-term			
AUD Bonds	**83 123 358**	**74 954 343**	**8 169 015**
Floating rate notes	**4 433 159**	**4 422 000**	**11 159**
Global AUD Bonds	**766 982**	**702 972**	**64 010**
Medium-term notes	**1 104 502**	**1 008 477**	**96 025**
Other	**223 191**	**216 606**	**6 585**
	89 651 192	**81 304 398**	**8 346 794**
Total interest-bearing liabilities	**94 026 880**	**85 693 393**	**8 333 487**

AS AT 30 JUNE 2013	FAIR VALUE $000	REPAYMENT AT MATURITY $000	DIFFERENCE $000
INTEREST-BEARING LIABILITIES – CAPITAL MARKETS OPERATIONS			
Short-term			
Treasury notes	1 237 105	1 243 000	(5 895)
Commercial paper	4 013 185	4 015 203	(2 018)
	5 250 290	5 258 203	(7 913)
Long-term			
AUD Bonds	85 167 737	78 280 328	6 887 409
Floating rate notes	350 884	350 000	884
Global AUD Bonds	1 263 077	1 169 002	94 075
Medium-term notes	1 056 418	943 111	113 307
Other	186 182	179 210	6 972
	88 024 298	80 921 651	7 102 647
Total interest-bearing liabilities	93 274 588	86 179 854	7 094 734

15 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS CONTINUED

	2014 $000	2013 $000
CLIENT DEPOSITS – CAPITAL MARKETS OPERATIONS		
Local governments	**1 801 076**	1 930 247
Statutory bodies	**1 729 109**	1 479 541
Government owned corporations	**594 740**	768 996
Government departments and agencies	**61 806**	64 007
QTC related entities	**68 817**	57 270
Other depositors	**201 170**	201 336
	4 456 718	4 501 397
Collateral held	**73 196**	552 721
Repurchase agreements	**948 028**	1 073 577
	1 021 224	1 626 298
Total deposits	**5 477 942**	6 127 695

16 OTHER LIABILITIES

	2014 $000	2013 $000
Cross border lease deferred income	**37 946**	52 267
Whole of Government Debt Pool net position	**43 318**	67 533
Employee benefits	**6 347**	6 239
Other	**3 065**	4 802
	90 676	130 841

17 FINANCIAL LIABILITIES AT AMORTISED COST

	2014 $000	2013 $000
FIXED RATE NOTES – LONG TERM ASSETS		
State Government	**31 983 174**	31 447 603

The Board considers that the carrying value of financial liabilities recorded at amortised cost in the financial statements approximates their fair value. For the purposes of the fair value hierarchy, the fixed rate notes are categorised as level 3 (refer note 20).

18 NOTES TO THE STATEMENT OF CASH FLOWS

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

	2014 $000	2013 $000
Profit for the year	**119 220**	222 884
NON-CASH FLOWS IN OPERATING SURPLUS		
Interest-bearing liabilities - net unrealised loss/(gain)	**2 123 944**	(1 309 368)
Interest-bearing liabilities - net unrealised exchange loss	**87 063**	5 664
Deposits - net unrealised (gain)/loss	**(147)**	11
Onlendings net unrealised (gain)/loss	**(2 201 057)**	1 255 992
Financial assets at fair value through profit or loss – net unrealised loss	**17 879**	284 430
Financial assets at fair value through profit or loss – net unrealised exchange gain	**(2 865)**	(73 985)
Depreciation of property, plant and equipment	**35 196**	34 018
Amortisation of intangibles	**2 168**	2 059
Net (gain)/loss on sale of property, plant and equipment	**(1 159)**	9
Doubtful debts writeback cooperative housing societies	**-**	(26)
Net loss /(gain) from investment accounted for using the equity method	**1 146**	(521)
CHANGES IN ASSETS AND LIABILITIES		
Decrease in financial assets at fair value through profit or loss - net accrued interest	**27 247**	43 878
Decrease/(increase) in financial assets at fair value through profit or loss - net discount/premium	**227 806**	(51 160)
(Increase)/decrease in deferred tax asset	**(1 002)**	306
Decrease /(increase) in onlendings - net accrued interest	**5 512**	(3 317)
Decrease in receivables	**1 448**	5 661
Decrease/(increase) in prepayments	**230**	(208)
Increase in interest-bearing liabilities - net accrued interest	**64 173**	107 526
(Decrease)/increase in interest-bearing liabilities - net discount/premium	**(51 571)**	305 558
Increase in deposits - net accrued interest	**236**	507
(Decrease)/ increase in payables	**(39 406)**	36 403
Decrease in deferred tax liability	**-**	(30)
(Decrease)/increase in income tax payable	**(168)**	7 047
Net cash provided by operating activities	**415 893**	873 338

(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).

19 FINANCIAL RISK MANAGEMENT

CAPITAL MARKETS OPERATIONS

QTC's activities expose it to a variety of financial risks including market risk (interest rate, currency and price risks), credit risk and liquidity risk. QTC's financial risk management 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.

QTC ensures that in undertaking its capital markets activities it has adequate capital to manage its risks. While QTC's capital is not subject to regulatory oversight, QTC operates under self-imposed capital requirements based on prudential statements published by APRA and utilises a capital adequacy approach based on Basel II: *International Convergence of Capital Measurements and Capital Standards* and applies these principles in its day to day management of capital.

Capital requirements are calculated for credit risk, market risk and operational risk with stress testing applied. Capital requirements are then applied against QTC's Tier 1 and Tier 2 capital held. Capital usage is calculated daily and monitored against approved limits with reports presented monthly to the Board.

All financial risk management activities are conducted within Board approved policies, as set out in the Financial Markets Risk Policy. The Board approves policies for overall risk management, as well as specifically for managing market risk, liquidity risk and credit risk. New financial instruments must be approved by the QTC Board.

Robust systems are in place for managing financial risk, and compliance with financial risk policies is monitored daily. The financial risk management process, including daily measurement and monitoring of market risk, liquidity risk, credit risk and portfolio performance and limit reviews, are 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 Markets Risk 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's borrowing and investment activities, including borrowing 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, exposes QTC to market risk.

As a consequence of market changes, there are residual risk positions which may result in realised and unrealised accounting gains or losses being recorded during the year. Depending on whether these transactions are held to maturity, the unrealised gains or losses may be reversed in subsequent accounting periods.

QTC uses a Board approved Value-at-Risk (VaR) framework to manage QTC's exposure to market risk complemented by other measures such as defined stress tests and PVBP (change in the present value for a one basis point movement). The VaR risk measure estimates the potential mark-to-market loss over a given holding period at a 99 per cent confidence level. QTC uses the historical simulation approach to calculate VaR using 18 months of market data with a holding period of 10 business days.

QTC's investments on behalf of its clients are held in the QTC Cash Fund. Movement in credit spreads will impact on the value of the assets held in the Cash Fund resulting in unrealised mark-to-market accounting gains or losses. QTC generally holds these assets to maturity and therefore QTC does not pass on the mark-to-market impact of credit margin changes, either positive or negative, in the returns to Cash Fund participants.

(i) Foreign exchange risk

QTC has funding facilities that allow for borrowing in foreign currencies. At times, QTC's Cash Fund invests in foreign currency assets. 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		DERIVATIVE CONTRACTS		NET EXPOSURE	
	2014 $000	2013 $000	2014 $000	2013 $000	2014 $000	2013 $000	2014 $000	2013 $000
USD	(1 639 017)	(4 015 203)	104 217	278 899	1 534 800	3 736 304	-	-
NZD	(737 554)	(653 660)	-	-	737 554	653 660	-	-
GBP	(253 328)	-	27 142	-	226 186	-	-	-
YEN	(157 320)	(163 899)	-	-	157 320	163 899	-	-
CHF	(131 251)	(125 552)	-	-	131 251	125 552	-	-
EUR	-	-	58 036	108 518	(58 036)	(108 518)	-	-

19 FINANCIAL RISK MANAGEMENT CONTINUED

(a) Market risk continued

(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. 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's interest rate risk, which results from borrowing in advance and investing surplus funds in high credit quality, highly liquid assets, is managed with consideration given to duration risk, yield curve risk, basis risk and VaR. To manage the risk of non-parallel yield curve movements, QTC manages portfolio cash flows in a series of time periods so that the net interest rate risk in each time period can be measured.

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

In QTC's Funding and Liquidity portfolios, interest rate swaps may be utilised to change the interest rate exposure of medium to long term fixed rate borrowings into that of a floating rate borrowing. Also, at times, floating to fixed swaps may be undertaken to generate a fixed rate term funding profile.

QTC is exposed to basis risk when interest rate swaps are used in the Funding and Liquidity portfolios. Basis risk represents a mark-to-market exposure due to movements between the swap curve and QTC's yield curve.

VaR IMPACT

The VaR at 30 June was as follows:

	2014	2013
Interest rate risk VaR	**$6m**	$22m

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 and the Cross Border Lease portfolio. At 30 June 2014, QTC had an exposure of approximately $0.8 million per basis point to changes in credit spreads of assets held in the QTC Cash Fund.

(b) Liquidity and financing risks

QTC has a robust internal framework whereby extensive liquidity scenario analysis and forecasting is undertaken to understand assumption sensitivities to ensure there is appropriate forward looking visibility of the State's liquidity position.

QTC debt is a Level 1 (prudentially required) asset for Australian banks under Basel III reforms with a 0% capital risk weighting. In normal and difficult market circumstances, QTC debt is likely to be in high demand. The ability to issue debt is considered a potential source of liquidity.

QTC holds appropriate liquidity (allowing for suitable haircuts of liquid assets) to meet minimum liquidity requirements as estimated today and as forecast into the future. QTC measures the minimum liquidity requirement to comfortably meet the following four scenarios simultaneously:

- Going Concern – progressively pre-fund term maturities 6 months from maturity
- Market Disruption - 90 days survival horizon (severe market circumstances)
- Name Crisis – 30 days survival horizon (extreme market circumstances)
- Standard & Poor's Liquidity Ratio – maintain a ratio greater than 80%

Further to this QTC holds liquid assets to support Queensland Public Sector (QPS) deposits and the State's Long Term Assets. QTC considers these liquid assets as potential sources of liquidity in a liquidity crisis.

To ensure liquidity is accessible as required, QTC holds a minimum of 5 working days' net cash requirements in 11AM cash to fund the net cash flows from assets and liabilities on QTC's balance sheet (included in money market deposits as per note 9).

QTC maintains its AUD 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 range of funding facilities is detailed in note 25.

The table on the following page 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 more than five year time band with no interest payment assumed in this time band.

19 FINANCIAL RISK MANAGEMENT CONTINUED

(b) Liquidity and financing risks continued

CONTRACTUAL MATURITIES AS AT 30 JUNE 2014	3 MONTHS OR LESS $000	3 – 6 MONTHS $000	6 – 12 MONTHS $000	1 – 5 YEARS $000	MORE THAN 5 YEARS $000	TOTAL $000	FAIR VALUE $000
FINANCIAL ASSETS							
Cash	546	-	-	-	-	**546**	**546**
Receivables	4 384	-	-	-	-	**4 384**	**4 384**
Onlendings #	1 360 947	1 338 062	2 692 737	19 566 983	78 295 529	**103 254 258**	**85 609 405**
Money market deposits	2 674 416	-	-	-	-	**2 674 416**	**2 674 416**
Discount securities	4 261 500	500 000	-	-	-	**4 761 500**	**4 738 190**
Commonwealth and semi-government securities	(42 234)	19 359	58 334	617 213	724 015	**1 376 687**	**1 151 874**
Floating rate notes	158 876	192 194	470 053	3 575 871	-	**4 396 994**	**4 105 618**
Term deposits	733 066	-	-	-	-	**733 066**	**729 476**
Other investments	410 078	133 267	211 841	530 638	74 588	**1 360 412**	**1 299 327**
Total monetary assets	**9 561 579**	**2 182 882**	**3 432 965**	**24 290 705**	**79 094 132**	**118 562 263**	**100 313 236**
FINANCIAL LIABILITIES							
Payables	(132 700)	(15 467)	-	-	-	**(148 167)**	**(148 167)**
Deposits	(5 461 658)	(20 273)	-	-	-	**(5 481 931)**	**(5 477 942)**
Treasury notes	(1 314 000)	(850 000)	-	-	-	**(2 164 000)**	**(2 152 166)**
Commercial paper	(2 125 640)	(100 001)	-	-	-	**(2 225 641)**	**(2 223 522)**
AUD Bonds	(1 112 388)	(3 604 705)	(1 980 643)	(46 776 900)	(45 408 695)	**(98 883 331)**	**(83 123 358)**
Floating rate notes	(178 244)	(533)	(1 068)	(4 278 121)	-	**(4 457 966)**	**(4 433 159)**
Global AUD Bonds	(12 377)	(8 712)	(21 089)	(773 569)	-	**(815 747)**	**(766 982)**
Medium-term notes	(27 917)	(2 084)	(27 731)	(873 896)	(419 635)	**(1 351 263)**	**(1 104 502)**
Other interest bearing liabilities	(12 331)	(11 779)	(28 001)	(185 151)	-	**(237 262)**	**(223 191)**
Total monetary liabilities	**(10 377 255)**	**(4 613 554)**	**(2 058 532)**	**(52 887 637)**	**(45 828 330)**	**(115 765 308)**	**(99 652 989)**
DERIVATIVES							
Interest rate swaps	(9 735)	489	(19 570)	(91 777)	(19 966)	**(140 559)**	**(135 154)**
Cross currency swaps	(473 915)	(4 268)	(45 713)	693 579	(329 898)	**(160 215)**	**68 817**
Forward rate agreements	(280 000)	(314 276)	(72 365)	747 750	-	**81 109**	**38 704**
Foreign exchange contracts	(69 139)	-	-	-	-	**(69 139)**	**(64 651)**
Net derivatives	**(832 789)**	**(318 055)**	**(137 648)**	**1 349 552**	**(349 864)**	**(288 804)**	**(92 484)**
Net monetary assets/(liabilities)	**(1 648 465)**	**(2 748 727)**	**1 236 785**	**(27 247 380)**	**32 915 938**	**2 508 151**	**567 963**
Cumulative	**(1 648 465)**	**(4 397 192)**	**(3 160 407)**	**(30 407 787)**	**2 508 151**		

19 FINANCIAL RISK MANAGEMENT CONTINUED

CONTRACTUAL MATURITIES AS AT 30 JUNE 2013	3 MONTHS OR LESS $000	3 – 6 MONTHS $000	6 – 12 MONTHS $000	1 – 5 YEARS $000	MORE THAN 5 YEARS $000	TOTAL $000	FAIR VALUE $000
FINANCIAL ASSETS							
Cash	197	-	-	-	-	**197**	**197**
Receivables	3 568	-	-	-	-	**3 568**	**3 568**
Onlendings #	1 602 981	1 405 425	2 810 851	19 574 610	74 318 643	**99 712 510**	**79 118 832**
Money market deposits	1 717 479	-	-	-	-	**1 717 479**	**1 717 477**
Discount securities	6 560 300	1 225 000	-	-	-	**7 785 300**	**7 743 703**
Commonwealth and semi-government securities	84 953	63 326	118 814	1 937 821	2 155 984	**4 360 898**	**3 642 350**
Floating rate notes	460 780	319 505	234 992	3 661 988	-	**4 677 265**	**4 314 169**
Term deposits	253 816	304 941	-	-	-	**558 757**	**552 625**
Other investments	302 670	150 129	226 646	1 693 286	-	**2 372 731**	**2 223 721**
Total monetary assets	**10 986 744**	**3 468 326**	**3 391 303**	**26 867 705**	**76 474 627**	**121 188 705**	**99 316 642**
FINANCIAL LIABILITIES							
Payables	(11 583)	(15 635)	-	-	-	**(27 218)**	**(27 218)**
Deposits	(6 109 685)	(20 305)	-	-	-	**(6 129 990)**	**(6 127 695)**
Treasury notes	(1 006 000)	(237 000)	-	-	-	**(1 243 000)**	**(1 237 105)**
Commercial paper	(2 808 138)	(1 207 065)	-	-	-	**(4 015 203)**	**(4 013 185)**
AUD Bonds	(5 528 519)	(943 810)	(2 102 146)	(45 921 806)	(50 548 588)	**(105 044 869)**	**(85 167 737)**
Floating rate notes	(352 425)	9	17	9	-	**(352 390)**	**(350 884)**
Global AUD Bonds	(374 694)	(11 401)	(24 539)	(944 151)	-	**(1 354 785)**	**(1 263 077)**
Medium-term notes	(25 459)	(2 172)	(25 458)	(842 728)	(428 445)	**(1 324 262)**	**(1 056 418)**
Other interest bearing liabilities	(18 071)	(12 802)	(21 036)	(146 315)	-	**(198 224)**	**(186 182)**
Total monetary liabilities	**(16 234 574)**	**(2 450 181)**	**(2 173 162)**	**(47 854 991)**	**(50 977 033)**	**(119 689 941)**	**(99 429 501)**
DERIVATIVES							
Interest rate swaps	32 505	(890)	(16 463)	(49 128)	210 392	**176 416**	**97 963**
Cross currency swaps	(455 774)	(4 395)	(58 733)	625 695	(340 831)	**(234 038)**	**19 815**
Forward rate agreements	(282 378)	(684 081)	(142 928)	1 282 477	65 090	**238 180**	**86 378**
Foreign exchange contracts	276 463	123 591	-	-	-	**400 054**	**416 579**
Net derivatives	**(429 184)**	**(565 775)**	**(218 124)**	**1 859 044**	**(65 349)**	**580 612**	**620 735**
Net monetary assets/(liabilities)	**(5 677 014)**	**452 370**	**1 000 017**	**(19 128 242)**	**25 432 245**	**2 079 376**	**507 876**
Cumulative	**(5 677 014)**	**(5 224 644)**	**(4 224 627)**	**(23 352 869)**	**2 079 376**		

 # 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.

19 FINANCIAL RISK MANAGEMENT CONTINUED

(c) Credit risk

(i) Financial markets counterparties

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 the potential loss at balance date in relation to investments and derivative contracts in the event of non-performance by all counterparties. The credit exposure for non-derivative investments is calculated based on the market value of the exposure together with the VaR while exposure to derivative contracts is based only on VaR.

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

	CREDIT EXPOSURE	
	2014 $000	**2013 $000**
Investments	**14 789 899**	20 858 701
Derivatives		
Interest rate swaps	**480 003**	1 025 761
Cross currency swaps	**212 300**	157 086
Foreign exchange contracts	**36 294**	600 218

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 credit risk team performing its own credit assessment of QTC's capital markets counterparties. The country of domicile, the counterparty's credit metrics, size of its funding programs, 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 (88 per cent of exposures are AA- or better) and to invest in highly liquid securities.

QTC also utilises collateral arrangements to limit its derivatives' credit exposure (refer (iii) master netting arrangements).

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

		CREDIT EXPOSURE			
	RATING	**2014 %**	**2013 %**	**2014 $000**	**2013 $000**
Long-term rating	AAA	**17**	22	**2 680 978**	5 036 145
	AA+	**4**	3	**593 640**	607 315
	AA	**-**	3	**23 547**	670 257
	AA-	**67**	64	**10 421 762**	14 503 213
	A+	**8**	4	**1 192 850**	1 014 792
	A	**2**	1	**282 754**	292 571
	A-	**2**	1	**296 581**	292 829
Short-term rating	A-1+	**-**	1	**26 384**	127 008
	A-2	**-**	1	**-**	97 636

(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. As a consequence, these exposures are not included in QTC's total credit exposure.

19 FINANCIAL RISK MANAGEMENT CONTINUED

(c) Credit risk continued

(iii) Master netting arrangements

QTC enters into all derivative transactions under International Swaps and Derivatives Association (ISDA) Master Agreements. QTC does not currently have any master netting arrangements where a default event has occurred, and has therefore presented all derivative financial instruments on a gross basis in the statement of financial position. QTC also has Credit Support Annexes (CSAs) in place with each ISDA, under which collateral is transferred every business day. This further reduces QTC's credit exposure.

The following table presents the financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset. The column 'net amount' shows the impact on QTC's balance sheet if all set-off rights were exercised.

	GROSS AND NET AMOUNTS ON THE BALANCE SHEET $000	EFFECT OF COLLATERAL AND NETTING $000	NET AMOUNT $000
2014			
Derivative assets			
subject to master netting arrangements	**213 838**	**(213 838)**	**-**
not subject to master netting arrangements	**38 704**	**-**	**38 704**
Derivative assets	**252 543**	**(213 838)**	**38 704**
Derivative liabilities			
subject to master netting arrangements	**(344 827)**	**311 738**	**(33 089)**
Derivative liabilities	**(344 827)**	**311 738**	**(33 089)**
Net exposure	**(92 285)**	**97 900**	**5 615**
2013 (1)			
Derivative assets			
subject to master netting arrangements	702 083	(696 275)	5 808
not subject to master netting arrangements	86 378	-	86 378
Derivative assets	788 461	(696 275)	92 186
Derivative liabilities			
subject to master netting arrangements	(167 726)	166 024	(1 702)
Derivative liabilities	(167 726)	166 024	(1 702)
Net exposure	620 735	(530 251)	90 484

(1) QTC transitioned from credit-based to zero-threshold CSAs during the 2013 calendar year, further reducing 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 within the framework provided by the Government. 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.

QIC provides 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.

In addition, 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. Since July 2012, LTAAB has been reducing risk in the Asset Portfolio. The revised asset classes feature reduced weights to listed equities, offset by increased weights to alternatives, global fixed interest and cash. The result was a reduction in expected return and volatility. In light of this strategy, the expected rate of return on the portfolio on which the interest rate on the fixed rate notes is set was revised from 7.5 per cent to 7.1 per cent, effective 1 July 2013.

(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 9). 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.

19 FINANCIAL RISK MANAGEMENT CONTINUED

(a) Market risk continued

(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 these changes to key risk variables, and applying a range of valuation methodologies, a reasonably possible change in profit and equity on applicable investments held at 30 June is as follows:

	2014 CHANGE		2014 PROFIT/EQUITY		2013 CHANGE		2013 PROFIT/EQUITY	
	LOW	HIGH	DECREASE $000	INCREASE $000	LOW	HIGH	DECREASE $000	INCREASE $000
Equities	**-19%**	**21%**	**(956 965)**	**1 042 900**	-18%	20%	(991 019)	1 058 644
Diversified alternatives	**-19%**	**20%**	**(1 148 342)**	**1 214 763**	-20%	21%	(949 279)	999 907
Infrastructure	**-11%**	**11%**	**(868 197)**	**877 636**	-11%	11%	(701 638)	714 615
Private equities	**-16%**	**17%**	**(296 750)**	**325 170**	-16%	16%	(231 117)	239 624
Real estate	**-9%**	**9%**	**(173 010)**	**183 288**	-5%	6%	(77 462)	95 851
Cash and fixed interest (1)	**-13%**	**12%**	**(1 343 540)**	**1 227 686**	-13%	12%	(1 338 766)	1 250 336
			(4 786 804)	**4 871 443**			(4 289 281)	4 358 977

(1) Cash and fixed interest includes exposure to interest rate and foreign currency sensitivity, including interest rate and inflation overlays on hedging instruments.

(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 have a term of 50 years. Due to the long term nature of this arrangement, no liquidity risk has been identified.

20 FAIR VALUE HIERARCHY

Financial instruments measured at fair value have been classified in accordance with the hierarchy described in AASB 13 *Fair Value Measurement*. The fair value hierarchy is categorised into three levels based on the observability of the inputs used.

Level 1 – quoted prices (unadjusted) in active markets that QTC can access at measurement date for identical assets and liabilities.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial instruments at fair value through profit or loss 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 at fair value through profit or loss are classified under Level 3.

Financial instruments classified as Level 1 consist primarily of short-term and tradable bank deposits and Commonwealth and semi-government bonds where an active market has been established. Financial instruments classified as Level 2 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 Level 2.

Classification of instruments into fair value hierarchy levels is reviewed semi-annually and where there has been a significant change to the valuation inputs and a transfer is deemed to occur, this is effected at the end of the relevant reporting period. There were no transfers between Level 1 and Level 2 during the year ended 30 June 2014.

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 pricing as a practical and consistent expedient for fair value measurements within the bid-ask spread.
- 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.
- Investments in unit trusts (Long Term Assets) – Units in trust funds are valued by QIC using fair value methodologies and adjusted for fees outstanding. QIC reports the net asset value based on the hard close unit price at measurement date.

AS AT 30 JUNE 2014	QUOTED PRICES LEVEL 1 $000	OBSERVABLE INPUTS LEVEL 2 $000	TOTAL $000
CAPITAL MARKETS OPERATIONS			
Financial assets			
Onlendings	-	85 609 405	**85 609 405**
Money market deposits	2 674 416	-	**2 674 416**
Discount securities	4 711 814	26 376	**4 738 190**
Commonwealth and state securities	1 151 874	-	**1 151 874**
Floating rate notes	4 103 789	1 829	**4 105 618**
Term deposits	-	729 476	**729 476**
Other investments	327 315	972 012	**1 299 327**
Total financial assets	**12 969 208**	**87 339 098**	**100 308 306**
Financial liabilities			
Treasury notes	-	2 152 166	**2 152 166**
Commercial paper	-	2 223 522	**2 223 522**
AUD Bonds	81 219 568	1 903 790	**83 123 358**
Floating rate notes	-	4 433 159	**4 433 159**
Global AUD Bonds	766 982	-	**766 982**
Medium-term notes	-	1 104 502	**1 104 502**
Client deposits	-	4 456 718	**4 456 718**
Collateral held	-	73 196	**73 196**
Repurchase agreements	-	948 028	**948 028**
Other interest bearing liabilities	-	223 191	**223 191**
Total financial liabilities	**81 986 550**	**17 518 272**	**99 504 822**
Derivative financial assets and liabilities			
Interest rate swaps	-	(135 154)	**(135 154)**
Cross currency swaps	-	68 817	**68 817**
Forward rate agreements	-	38 704	**38 704**
Foreign exchange contracts	-	(64 651)	**(64 651)**
Total derivatives (net)	**-**	**(92 284)**	**(92 284)**
LONG TERM ASSETS			
Financial assets			
Investments in unit trusts – QIC	-	**33 431 249**	**33 431 249**

20 FAIR VALUE HIERARCHY CONTINUED

AS AT 30 JUNE 2013	QUOTED PRICES LEVEL 1 $000	OBSERVABLE INPUTS LEVEL 2 $000	TOTAL $000
CAPITAL MARKETS OPERATIONS			
Financial assets			
Onlendings	-	79 118 832	**79 118 832**
Money market deposits	1 717 477	-	**1 717 477**
Discount securities	7 616 756	126 947	**7 743 703**
Commonwealth and state securities	3 642 350	-	**3 642 350**
Floating rate notes	4 312 641	1 528	**4 314 169**
Term deposits	-	552 626	**552 626**
Other investments	125 102	2 098 619	**2 223 721**
Total financial assets	**17 414 326**	**81 898 552**	**99 312 878**
Financial liabilities			
Treasury notes	-	1 237 105	**1 237 105**
Commercial paper	-	4 013 185	**4 013 185**
AUD Bonds	83 529 812	1 637 925	**85 167 737**
Global AUD Bonds	1 263 077	-	**1 263 077**
Medium-term notes	-	1 056 418	**1 056 418**
Floating rate notes	-	350 884	**350 884**
Client deposits	-	4 501 397	**4 501 397**
Collateral held	-	552 721	**552 721**
Repurchase agreements	-	1 073 577	**1 073 577**
Other interest bearing liabilities	-	186 182	**186 182**
Total financial liabilities	**84 792 889**	**14 609 394**	**99 402 283**
Derivative assets and derivative liabilities			
Interest rate swaps	-	97 963	**97 963**
Cross currency swaps	-	19 815	**19 815**
Forward rate agreements	-	86 378	**86 378**
Foreign exchange contracts	-	416 579	**416 579**
Total derivatives (net)	**-**	**620 735**	**620 735**
LONG TERM ASSETS			
Financial assets			
Investments in unit trusts - QIC	-	**29 767 721**	**29 767 721**

21 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 25. 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.

22 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.
- QTC has provided guarantees relating to the trading activities of Ergon Energy, a Queensland Government owned corporation, to the value of $102 million (2013 $149 million) which are supported by a counter indemnity.
- QTC has provided guarantees to the value of $345 million (2013 $192 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 can lend stock to support the liquidity of QTC bonds in the financial markets. At 30 June 2014 and 30 June 2013, no QTC inscribed stock was lent to other financial institutions.

23 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 2016 or 1 April 2018. Lease payments include a 4 per cent per annum escalation factor, and
- 2 Cycas Lane, Eagle Farm, for a period of four years with an option to extend for an additional year. The initial four year term included a six month rent free period to be taken at the start of the lease.

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

	2014 $000	2013 $000
Leases payable		
Not longer than 1 year	**3 430**	3 314
Longer than 1 year but not longer than 5 years *	**2 855**	6 285
	6 285	9 599

** Excludes any payments due on early surrender of the lease.*

LEASING ARRANGEMENTS – QTC AS LESSOR

Operating leases

QTC has entered into operating leases as lessor under the whole of government lease facility which consists mainly of buses and ferries. 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:

	2014 $000	2013 $000
Leases receivable		
Not longer than 1 year	**50 679**	51 923
Longer than 1 year but not longer than 5 years	**135 855**	166 340
Longer than 5 years	**14 802**	34 829
	201 336	253 092

Finance lease

QTC has entered into two leasing arrangements to lease bus depots to a public sector entity. The minimum lease term under both arrangements is 25 years with the second including an option to extend.

Finance charges include interest and fees associated with the leases. The leases are non-cancellable.

Details of the minimum rental receivable under the finance leases are as follows:

	2014 $000	2013 $000
Lease receivable		
Not longer than 1 year	**6 816**	3 242
Longer than 1 year but not longer than 5 years	**34 158**	14 141
Longer than 5 years	**203 183**	80 737
	244 157	98 120
Less amounts representing finance charges	**(126 591)**	(52 405)
	117 566	45 715

The present values of finance lease receivables are as follows:

	2014 $000	2013 $000
Lease receivable		
Not longer than 1 year (1)	**6 515**	3 099
Longer than 1 year but not longer than 5 years	**27 845**	11 284
Longer than 5 years	**83 206**	31 332
	117 566	45 715

(1) A component of lease receivables is capitalised until 11 September 2014.

24 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:

	2014 $000	2013 $000
Not longer than 1 year	**690 000**	1 143 782
Longer than 1 year but not longer than 5 years	**-**	690 000
	690 000	1 833 782

OTHER COMMITMENTS

QTC entered into an arrangement to purchase and construct a bus depot that is leased to a public sector entity over a 25 year term. The lease commenced in 2013-14 and is for a 25 year term (refer note 23).

In the prior financial year, QTC's commitments under this construction arrangement were as follows:

	2014 $000	2013 $000
Not longer than 1 year	**-**	9 289
	-	9 289

25 FUNDING FACILITIES

FACILITY	SIZE $M	MATURITIES#	CURRENCY	FACE VALUE ON ISSUE AUD M 2014	FACE VALUE ON ISSUE AUD M 2013
Short term					
Domestic T-Notes	Unlimited	7-365 days	AUD	**2 164**	1 243
Euro CP	USD10 000	1-364 days	Multicurrency	**1 573**	2 004
US CP	USD10 000	1-270 days	USD	**752**	2 011
Long term					
AUD Bond	Unlimited	12 benchmark lines 2014-2025	AUD	**64 928**	60 999
		4 AGG* lines 2015-2021	AUD	**8 916**	15 972
		1 non-benchmark line 2033	AUD	**800**	725
		Capital indexed bond 2030	AUD	**834**	811
		Floating rate notes 2014-2017	AUD	**4 422**	350
Global AUD Bond	AUD20 000	2 AGG* lines 2015-2017	AUD	**703**	1 169
Euro MTN	USD10 000	Various	Multicurrency	**1 101**	1 027
US MTN	USD10 000	Various	Multicurrency	**-**	-

**AGG – Australian Government Guarantee*

 # maturities relate to current lines at 30 June 2014

26 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 27.

(c) Investments in associates and other companies

Details of investments in associates and other companies are set out in notes 29 and 30.

(d) Transactions with related parties

Transactions undertaken with related parties during the year include loans issued to public sector entities (refer note 11), the investment of cash surpluses (refer note 15), 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 and Trade, 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.

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

All loans to Queensland Treasury Holdings Pty Ltd (QTH) have been fully repaid at balance date. Details of loans held during the financial year are as follows:

- a loan to purchase the rights to licence fees receivable. The loan was fully repaid during the year (2013 market value $153.705 million). Repayments of $167.353 million (2013 $0.011 million) were made during the year. Interest and fees charged totalled $13.648 million (2013 $5.660 million).

QTC has interests in other government related entities through various shareholdings. These entities hold deposits (refer note 15) and loans (refer note 11) with QTC that are provided on an arm's length basis and are subject to QTC's normal terms and conditions.

27 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's Boards

QTC has designated its powers to its two boards, the Capital Markets Board and the Long Term Asset Advisory Board. Both boards are appointed by the Governor-in-Council, pursuant to section 10(2) of the *Queensland Treasury Corporation Act 1988*.

(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 principles

Directors – Capital Markets Board

The process for reviewing Board remuneration requires any increase in the Board's remuneration to be approved by the Treasurer and endorsed by Cabinet. Remuneration was last increased effective 1 July 2012.

Directors – Long Term Asset Advisory Board

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

Executives and employees

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 quality employees with a range of skills and competencies critical to the ongoing success of QTC and the achievement of business strategy and objectives. QTC's remuneration framework has been developed as part of an attraction and retention strategy and a mechanism to drive superior organisational performance. Further, the framework ensures rigor in pay outcomes appropriate to the (financial institutions) market and environment in which QTC operates and contributes to employee engagement.

The remuneration framework comprises both fixed and variable remuneration (in the form of an annual short-term incentive (STI) opportunity) which are approved by the QTC Board annually.

Fixed remuneration

The fixed remuneration of each QTC employee is reviewed in July each year and is benchmarked against remuneration data from the Financial Institutions Remuneration Group (FIRG). Fixed remuneration levels are set around the FIRG market median position, and experience, skills and performance are considered when determining the remuneration level of each employee.

Variable remuneration - short-term incentives

QTC's variable remuneration framework provides an annual short-term incentive opportunity for eligible employees, aligned to financial year performance.

This opportunity is designed to differentiate and reward outstanding organisational, group and individual performance, and to align performance at these levels with incentive outcomes. It also aims to ensure market competitiveness, with 'target' STI outcomes aligned to the conservative market position and approved at Board level each year. For the 2013-14 year, STI payments will be made to eligible staff in September.

27 KEY MANAGEMENT PERSONNEL CONTINUED

(d) Remuneration by category

	2014 $	2013 $
CAPITAL MARKETS OPERATIONS		
Directors		
Short-term employment benefits (1)	**373 543**	364 395
Post-employment benefits (4)	**17 690**	19 095
Total	**391 233**	383 490
Executive management		
Short-term employment benefits (2)	**2 707 336**	2 642 901
Long-term employment benefits (3)	**54 777**	-
Post-employment benefits (4)	**99 355**	90 900
Total	**2 861 468**	2 733 801

(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 taken, short-term incentives and non-monetary benefits such as car parks and motor vehicle benefits and for the prior financial year, long-service leave.

(3) Long-term employment benefits relates to long-service leave from 1 July 2013.

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

(i) Directors

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

	SHORT-TERM EMPLOYMENT BENEFITS		POST-EMPLOYMENT BENEFITS		TOTAL	
	2014 $	2013 $	2014 $	2013 $	2014 $	2013 $
Gerard Bradley - Chairman	**117 985**	117 670	**10 303**	10 110	**128 288**	127 780
Alex Beavers - Deputy Chairman	**41 425**	41 431	**-**	-	**41 425**	41 431
Stephen Bizzell (1)	**44 273**	15 480	**-**	-	**44 273**	15 480
Gillian Brown	**40 209**	40 209	**3 719**	3 619	**43 928**	43 828
Tonianne Dwyer (1)	**39 657**	14 460	**3 668**	1 302	**43 325**	15 762
Neville Ide (2)	**46 950**	46 947	**-**	-	**46 950**	46 947
Marian Micalizzi (3)	**-**	22 577	**-**	2 032	**-**	24 609
Bill Shields	**43 044**	43 044	**-**	-	**43 044**	43 044
Shauna Tomkins (3)	**-**	22 577	**-**	2 032	**-**	24 609
Total	**373 543**	364 395	**17 690**	19 095	**391 233**	383 490

(1) Appointed 14 February 2013

(2) Resigned 30 June 2014

(3) Resigned 31 January 2013

27 KEY MANAGEMENT PERSONNEL CONTINUED

(ii) Executive management

Details of the nature and amount of each major element of the remuneration of the executive management personnel are as follows:

	SHORT-TERM EMPLOYMENT BENEFITS (1)		POST-EMPLOYMENT BENEFITS	LONG-TERM BENEFITS	TOTAL
	BASE $	NON-MONETARY $	$	$	$
30 JUNE 2014					
Chief Executive	**594 041**	**18 581**	**17 714**	**15 562**	**645 898**
Chief Operating Officer	**294 918**	**8 519**	**26 131**	**8 346**	**337 914**
Executive General Manager, Funding & Markets	**427 537**	**8 519**	**17 714**	**11 294**	**465 064**
Executive General Manager, Client Services	**285 879**	**8 519**	**17 714**	**7 826**	**319 938**
Executive General Manager, Business Services (2)	**119 219**	**7 370**	**7 619**	**7 826**	**142 034**
Acting Executive General Manager, Business Services (3)	**134 487**	**4 992**	**12 463**	**3 923**	**155 865**

(1) Exclude at-risk performance payments
(2) To 4 December 2013
(3) Appointed on 4 December 2013

	SHORT-TERM EMPLOYMENT BENEFITS (1)		POST-EMPLOYMENT BENEFITS	LONG-TERM BENEFITS	TOTAL
30 JUNE 2013					
Chief Executive	575 939	22 744	16 360	-	615 043
Chief Operating Officer	279 291	8 305	24 133	-	311 729
Executive General Manager, Funding & Markets	414 174	8 305	17 793	-	440 272
Executive General Manager, Client Services	265 713	8 305	16 227	-	290 245
Executive General Manager, Business Services	266 054	13 901	16 387	-	296 342

(1) Exclude at-risk performance payments

(iii) At-risk performance payments

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

	YEAR OF ASSESSMENT	
	2014 $	2013 $
Executive management	**794 755**	780 170

(e) Other transactions

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

28 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:

	2014 $	2013 $
AUDIT SERVICES		
Audit of QTC	**375 000**	375 000

29 INVESTMENT IN JOINT VENTURE ENTITY

ENTITY	PRINCIPAL ACTIVITIES	ORDINARY SHARE OWNERSHIP INTEREST		INVESTMENT CARRYING AMOUNT	
		2014	2013	2014	2013
Local Government Infrastructure Services Pty Ltd	Provides assistance to Queensland local governments in relation to infrastructure procurement	**50%***	50%	-	50%

shares sold 1 July 2014

RESULTS OF JOINT VENTURE ENTITY

Summarised financial information of jointly controlled entity:

	2014 $000	2013 $000
STATEMENT OF COMPREHENSIVE INCOME		
Revenues	**5 314**	9 743
Expenses	**(5 594)**	(8 701)
(Loss)/profit for the year	**(280)**	1 042
BALANCE SHEET		
Current assets	**2 680**	13 253
Non-current assets	**128**	-
Total assets	**2 808**	13 253
Current liabilities	**796**	10 961
Total liabilities	**796**	10 961
Net assets	**2 012**	2 292

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

	2014 $000	2013 $000
SHARE OF POST-ACQUISITION RETAINED PROFITS		
Share of retained profits at 1 July	**1 307**	1 277
Share of net (loss)/profit	**(140)**	521
Dividend received	**(261)**	(491)
Share of retained profits at 30 June	**906**	1 307
Write-down of carrying value of investment (1)	**(1 006)**	-
(Loss)/profit on investment	**(100)**	1 307
MOVEMENTS IN CARRYING AMOUNT OF INVESTMENT		
Carrying amount at 1 July	**1 407**	1 377
Share of net (loss)/profit	**(140)**	521
Dividends received	**(261)**	(491)
Writedown of carrying value of investment (1)	**(1 006)**	-
Carrying amount at 30 June	**-**	1 407

(1) QTC's 50% equity holdings in LGIS was transferred to LGAQ on 1 July 2014 at nominal consideration. The investment value has been written down to its recoverable value at 30 June 2014.

30 INVESTMENTS IN COMPANIES

Investments in the following companies are held at cost:

NAME	PRINCIPAL ACTIVITIES	BENEFICIAL INTEREST 2014 %	VOTING RIGHTS 2014 %	BENEFICIAL INTEREST 2013 %	VOTING RIGHTS 2013 %
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)	Owns & leases bulk coal port facilities in North Queensland	**40**	**24**	40	24
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)	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, 2)	Manages the procurement of the Airport Link and Northern Busway projects	**40**	**24**	20	12
Sunshine Locos Pty Ltd (3)	Dormant	**50**	**50**	50	50
Network Infrastructure Pty Ltd (1)	Dormant	**40**	**24**	40	24

(1) Beneficial interest and voting rights in the Company are held indirectly through QTC's holdings in QTH.
(2) Remaining shares were cancelled on 1 July 2013 increasing the beneficial interest to 40 per cent and voting rights to 24 per cent.
(3) Sunshine Locos Pty Ltd has not been consolidated into these statements due to its immaterial and dormant status.

31 DIVIDENDS

QTC pays dividends to the Queensland Government from time to time. A dividend of $120.0 million was provided for during the year (2013 nil).

32 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 2014, and

(iii) the management report includes a fair review of the information required under article 3(2)(c) of the Law of January 11, 2008 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
29 August 2014

INDEPENDENT AUDITOR'S REPORT

To the Capital Markets Board of 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 2014, 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 Board's Responsibility for the Financial Report

The Capital Markets Board (the Board), as delegated by 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 Board's responsibility also includes such internal control as the Board determines is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2(a), the Board 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 Board, 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 2013 to 30 June 2014 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

Those viewing an electronic presentation of these financial statements should note that audit does not provide assurance on the integrity of the information presented electronically and does not provide an opinion on any information which may be hyperlinked to or from the financial statements. If users of the financial statements are concerned with the inherent risks arising from electronic presentation of information, they are advised to refer to the printed copy of the audited financial statements to confirm the accuracy of this electronically presented information.

AUDITOR GENERAL
19 SEP 2014
OF QUEENSLAND

A M GREAVES FCA FCPA
Auditor-General of Queensland

Queensland Audit Office
Brisbane

REVIEW OF OPERATIONS

QTC made an operating profit after tax for the year ended 30 June 2014 of AUD3,247.2 million consisting of the following operating segment results:

- **Capital Markets Operations**

During the period from 1 July 2013 to 30 June 2014, 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 2014 for the Capital Markets Operations segment was AUD119.2 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.

The operating profit after tax for the Long Term Assets segment was AUD3,128.0 million with all major asset classes of the portfolio delivering positive outcomes for the year.

PRINCIPAL RISKS AND UNCERTAINTIES

Financial market conditions were relatively benign in 2013-14. However, there is a risk that markets have become complacent about future risks and that the current environment, characterised by low volatility, will not persist. It is uncertain what may trigger a rise in volatility, when this might occur, and how substantial it might be. There is also uncertainty around policy settings returning to normal including when official interest rates are raised both globally and in Australia. It is possible actions by the Federal Reserve may be a catalyst for a rise in volatility which if it were to be the case, would make QTC's funding task more difficult, at least relative to the past financial year. However, QTC has established a long track record of attracting investors and raising funds in a cost effective manner across a variety of market conditions and as such, any change in market conditions in this manner is not expected to materially impact on QTC's performance or its ability to fund the State's borrowing requirement in 2014-15.