Dominic D Smith
SVP & Company Secretary

QR National Limited
ABN 14 146 335 622

Level 17, 175 Eagle St
Brisbane QLD 4000, Australia
GPO Box 456
Brisbane QLD 4001, Australia

T +61 7 3019 1976
F +61 7 3019 2188
companysecretary@qrnational.com.au

23 August 2012

ASX Market Announcements
ASX Limited
20 Bridge Street
Sydney NSW 2000

BY ELECTRONIC LODGEMENT

QR National – Annual Report

Please find attached a copy of QR National's 2012 Annual Report.

In accordance with the relief from dual lodgment of financial statements under ASIC Class Order 98/104, the Annual Report will not be lodged separately with ASIC.

Copies of the Annual Report are expected to be dispatched to all shareholders, whom have elected to receive a copy of the Annual Report, in mid-September 2012.

The Company's Annual General Meeting will be held at 10:00am (Brisbane time) on 7 November 2012. A copy of the Notice of Annual General Meeting is expected to be sent to all shareholders in mid-September 2012.

Yours faithfully
QR National

Dominic D Smith
SVP & Company Secretary

QR NATIONAL
ANNUAL REPORT
2011–12

QR NATIONAL

QR National is Australia's largest rail freight operator, with more than 145 years' experience. Each day, the Company moves on average more than 500,000 tonnes of coal, iron ore and other minerals, as well as agricultural and general freight, around the nation.

QR National owns and operates a coal network made up of almost 2,670 kilometres of heavy haul rail infrastructure in Central Queensland. The Company also provides a range of specialist services in rail design, engineering, construction, management and maintenance, and offers large-scale supply chain solutions to a diverse range of customers Australia-wide.

QR National has played a critical role in the economic development and growth of the minerals-rich state of Queensland, providing the transport backbone for one of the world's largest coal supply chains. Over recent years, QR National has extended its business focus beyond Queensland and applied its expertise and capabilities to coal and iron ore opportunities in New South Wales and Western Australia, as well as intermodal freight across the nation.

QR National's business comprises three major product lines – Coal, Freight and Network. The Company's performance and future growth is linked to the key demand drivers of the Australian resources sector. As a result, QR National is well placed to benefit from the expected growth in demand for coal and iron ore, particularly from fast-growing Asian economies such as China and India.

Our Vision

Grow our People. Grow with our Customers. Grow the Nation.

Our Mission

To be a world-leading transport business, to partner with customers for growth and to double the value of the Company every five years, while becoming the safest transport company in the world.

Our Employee Promise

To build a diverse, collaborative and creative workplace where people know what they are accountable to do and can count on having what they need to succeed.

Our Values

Safety — Safety of ourselves and others is our number one priority.

Integrity — We are honest and fair and conduct business with the highest ethical standards.

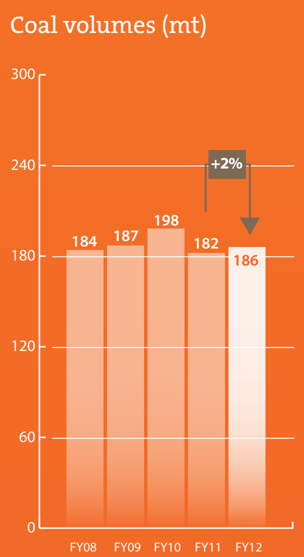
Leadership, Passion & Courage — We are passionate about leading change. We deliver results with energy and conviction.

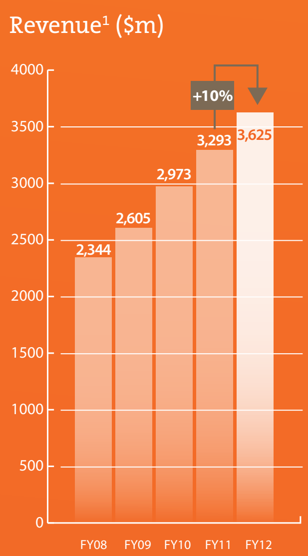
World Class Performance — We deliver world class performance and superior value for our shareholders, customers and staff.

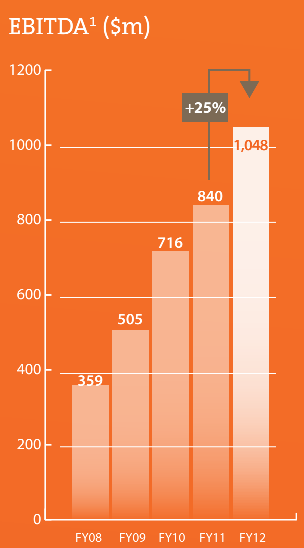
Contents

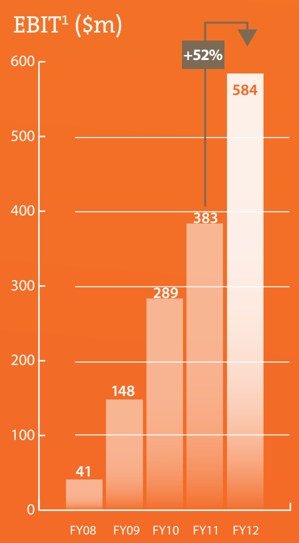
Image: QRN Moura Line

QR National's commitment to achieving quality results, despite the shortfall of almost 50 million tonnes of forecast growth in coal volumes, helped deliver a 52% improvement in EBIT in FY12.





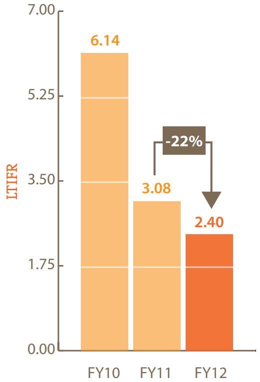




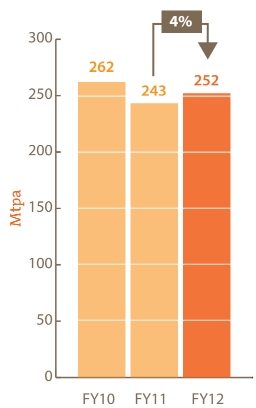
[1] Underlying revenue, EBITDA and EBIT. Underlying results differ from the Group's statutory results. Refer reconcilliation to statutory earnings on page 69.

Image: Moura Line – Big Country

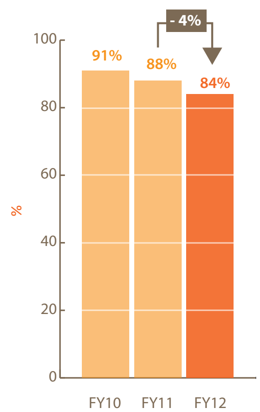
Lost Time Injury Frequency Rate



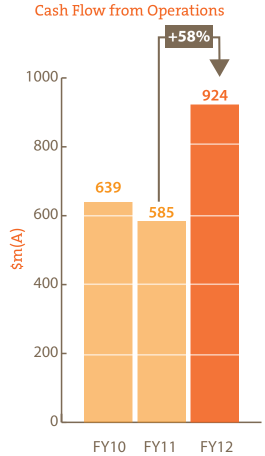
Total Volumes



Group Operating Ratio



Cash Flow from Operations



Safety

22% Reduction in lost time injuries

Total Volumes

252 Million tonnes hauled

Operating Ratio

4ppt Reduction in Group operating ratio

Cash Flow

58% Increased cash inflow

Image: Moura Line – Big Country

Financial Highlights	FY11 ($m)	FY12 ($m)	Variance
Statutory Revenue	3,293	3,634	10 %
Statutory EBITDA[1]	679	1,057	56 %
Underlying EBITDA[1,2]	840	1,048	25 %
Statutory EBIT[1]	222	593	168 %
Underlying EBIT[1,2]	383	584	52 %
Statutory NPAT[1,3]	361	441	22 %
Underlying NPAT	172	420	144 %
Statutory EPS (cps)[1]	15.4	18.1	18 %
Total Dividends (cps)	3.7	8.3	124 %

[1] FY11 comparative restated due to a retrospective application of a voluntary change in accounting policy relating to mechanised Ballast undercutting.

[2] Underlying EBITDA and EBIT in FY12 were adjusted by $8.8m relating to the reversal of stamp duty. Underlying EBITDA and EBIT in FY11 were adjusted for one-off IPO related costs and voluntary redundancy expenses totalling $161.7m.

[3] FY11 statutory NPAT includes $281m tax benefit.

Group Operating Metrics[1]	FY11	FY12	Variance
Revenue / ntk (A$/000 ntk)	55.1	57.7	5 %
Labour Costs / Revenue	34 %	31 %	3 ppt
ntk / employee (MNTK)	6.6	7.0	6 %
Opex / ntk (A$/000 ntk)	48.6	48.4	0 %
EBITDA Margin	26 %	29 %	3 ppt
Operating Ratio	88 %	84 %	4 ppt
ROIC	4.4 %	6.7 %	2.3 ppt
ntk (bn)	59.8	62.9	5 %
Tonnes (m)	243.1	252.2	4 %
People	9,001	8,969	0 %

[1] The Group Operating Metrics are calculated to underlying results.

Our 146 years' experience combined with our recent transformation has made us commercially driven, customer-focused, efficient and primed for future success.

Chairman's Report

QR National has embraced a strategy to achieve world-class performance across the business, with our commitment to customers at the core of our reforms.

The completion of QR National's first full financial year as a listed company is an important milestone in our 146-year history. The 12 months to 30 June 2012 have been an industrious period for the Company supporting our customers with rail transportation services in the coal, bulk and general freight markets. We have navigated the heightened volatility of global markets, a tough domestic economic environment, and diverse operational challenges to deliver a quality financial result and achieve significant gains with our major growth and transformation programs.

Quality Results in Challenging Conditions

The difficult operating conditions that prevailed in the months following our transition to publicly-listed life persisted over the course of 2011–12. The lingering impacts of Queensland's record floods in 2010–11, softer global demand and industrial action at some Queensland mines have resulted in lower coal production. These events, together with some adverse weather impacting on network availability, contributed to weaker demand for the Company's coal haulage services.

It is against this backdrop that our Company demonstrated the resilience of our business and the benefits of reform initiatives, with the Company posting a 22 per cent increase in net profit after tax to $441 million. Underlying[1] Earnings Before Interest and Tax (EBIT) was $584 million, a 52 per cent increase over the prior year, and earned on revenues of $3.6 billion.

On the strength of these results, at year end the QR National Board declared a final dividend of 4.6 cents per share, giving a full-year dividend of 8.3 cents per share. This represents an increase of 4.6 cents, or 124 per cent over the prior year.

While there has been significant market volatility in global equity markets since the unfolding of the European debt crisis, QR National's Total Shareholder Returns for the year outperformed the S&P/ASX 200 index by 8.8 per cent.

QR National's financial performance for the 2011–12 year is set out in detail in the latter half of this report on pages 45 to 93.

[1] Underlying results differ from the Group's statutory results. Refer reconciliation to statutory earnings on page 69.

Image: Moura Line

Growth and Transformation

The transformation of QR National gathered pace in 2011–12. The Company embraced a strategy to achieve world-class performance across the business with our commitment to customers at the core of our reforms. A new functional structure took effect during the year, removing operational silos, driving cost efficiencies and better positioning the Company to tackle legacy issues associated with our long history of Government ownership. As part of this process, in June, the Company proposed a range of reforms including a second round of voluntary redundancies. We recognise that in the current challenging environment it is more important than ever to lower the Company's cost base and to match capacity with demand.

During the year we continued to invest heavily in new rail infrastructure collaborating with our customers on future supply chain solutions for the Australian resources sector. QR National has growth projects underway which will deliver a one-third increase in the capacity of our Central Queensland Coal Network by 2015. The Company is also planning for growth beyond this timeframe and recently received the support of the Queensland Government for new rail expansions to realise the vast export potential of the Bowen and Galilee Basins.

In Western Australia's rich iron ore province of the Pilbara, the Company is pursuing strategic opportunities that leverage our capability to build and operate multi-user railways. Details of our progress on these major growth projects can be found on pages 12–13 of this Annual Report.

Safety and Sustainability

As always, safety is QR National's first priority. Providing a safe environment for our stakeholders, particularly our employees around Australia, is our most important responsibility. In 2011–12 we were heartened by improving trends across our key safety metrics, particularly as we view these improvements as a barometer of the changing culture within the Company. However, I speak for both the Board and executive team when I reiterate that QR National will never be satisfied with anything less than ***ZERO***HARM, which means no injuries to anyone, ever.

As QR National grows and builds value as a listed entity operating sustainably will continue to be at the heart of our approach to doing business. We operate in all mainland states of Australia and our employees live and work in local communities. The Company recognises our clear duty to employees, customers, communities and shareholders to be a responsible corporate citizen.

Our commitments and progress in the areas of safety, people, environment and community are discussed in detail on pages 14–17 of this report.

Government Holding

Following QR National's privatisation and listing on the Australian Securities Exchange (ASX) in late 2010 the Queensland Government retained an interest of approximately 34 per cent in the Company. The Government of the day entered into an escrow arrangement with QR National for its retained shareholding until the release of the Company's 2011–12 financial results. The new Queensland Government has indicated it does not intend to remain a long-term shareholder in QR National, however the nature and timing of any sell-down is ultimately a matter for them to determine. QR National takes an active role in managing of the Company's balance sheet and will aim to work with the Government to facilitate an outcome in the best interests of all shareholders.

Board Composition

As Chairman of QR National I am grateful to work with Company Directors of the highest calibre. During 2011–12 we welcomed two new Directors to the QR National Board but also farewelled two of our esteemed colleagues. In October we were deeply saddened by the passing of fellow Director Mr Peter Kenny. Peter was a highly valued member of our Board and a distinguished figure in Queensland's rural sector. He will be greatly missed.

Mr Allan Davies resigned from the Board during the year due to the pressure of other professional commitments. Both Peter and Allan were foundation Directors of the Company, joining at its incorporation in 2010. The Board places on record its gratitude for the significant contribution made by Peter and Allan to the Company's achievements and its successful transition from Government-owned corporation to publicly-listed company.

In April, Mrs Karen Field and Mr John Cooper were appointed to the Board of Directors. Karen and John bring additional diversity and broad industry knowledge in mining, construction and engineering and human resources management. Their appointments have strengthened the QR National Board and I am confident the Company will benefit from their astute counsel over the coming periods.

Outlook

Entering 2012–13 the Company remains positive in its outlook. Short-term global economic uncertainties have not changed the medium to long-term outlook for the markets we serve. Further growth opportunities are expected for resource-related Australian companies in the Asian century and QR National is primed to benefit with our leverage to this sector. The Company's balance sheet is strong and we have a well developed pipeline of growth projects to execute in the coming years. We will also continue to extract value by transforming the Company into a commercially driven, customer-focused and highly efficient rail operator.

Acknowledgements

The transformation and revitalisation of QR National is taking shape with remarkable clarity. I would like to thank all QR National employees for their efforts and contributions to the widespread change that is underway. Also my appreciation goes to the executive team competently led by Managing Director & CEO Lance Hockridge for the great strides taken over the past 12 months.

We also owe our success to date to the support of our shareholders. On behalf of the Board, I thank you for taking this journey with QR National. Be assured we will continue to target superior returns for shareholders in 2012–13 and the years which follow.

I look forward to welcoming you at the Company's AGM on Wednesday 7 November 2012 at the Brisbane Convention and Exhibition Centre.

John B Prescott AC
Chairman

Managing Director & CEO's Report

In 2012, the Company delivered on all of its major commitments, including project delivery and safety performance.

Since the privatisation and ASX listing of QR National the Company has generated strong momentum with its strategic growth and transformation program. Over the past 12 months we have executed our strategy and examined every aspect of the business to determine how and where we can improve the Company's future performance. It has been a huge body of work, culminating in a major corporate restructure that is in the midst of implementation.

As outlined to shareholders in last year's Annual Report our efforts have concentrated on five key strategic drivers:

1. Achieving excellence in customer service
2. Establishing an accountable, performance-based culture
3. Improving asset utilisation and return on capital
4. Leveraging and expanding our leadership position in coal
5. Pursuing opportunities for growth and diversification.

These imperatives continue to form the fundamental platform from which we are growing and transforming Australia's largest rail freight business. Indeed, this strategy has served QR National well in a very complex and challenging operating environment during 2011–12 with the Company delivering a strong increase in underlying earnings despite significantly weaker coal tonnages. Importantly, the Company delivered on all of its major commitments, including project delivery and safety performance.

Image: Port of Brisbane

Financial Results

Weaker demand due to a delayed recovery from Queensland's floods in the year prior and industrial action at a key customer's operations contributed to a 47 million tonne reduction in coal haulage volumes for the year compared to initial expectations. However, the impact of lower tonnages was largely offset by the benefits of greater revenue quality and the achievement of cost efficiencies delivered by the Company's transformation program, leading to improved margins.

Underlying[1] Earnings Before Interest and Tax (EBIT) for the year was $584 million, up 52 per cent (FY11[2]: $383 million).

Statutory revenue rose to $3.6 billion for the reporting period to 30 June 2012, a 10 per cent increase over the prior year (FY11: $3.3 billion). The combination of revenue growth with cost reduction and reform initiatives contributed to a 25 per cent improvement in underlying1 Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) to $1,048 million (FY11[2]: $840 million).

Total assets were $10.0 billion, and earnings per share was 18.1 cents. We continued to generate strong cash flows to fund our major growth projects, with capital expenditure totalling $1.2 billion for the year. The Company's net debt position as at 30 June 2012 was $1.1 billion, reflecting a net gearing ratio of 13 per cent.

The quality of these results in challenging economic conditions, both in Australia and abroad, highlights the solid operating fundamentals of QR National, as well as the potential for the Company to add value through its comprehensive growth and transformation program.

Operational Performance

During the first half of 2011–12, coal tonnages were gradually recovering from the impacts of Queensland's natural disasters in the prior year. However, customer tonnages remained volatile in the second half of 2011–12 with QR National having significant track and haulage capacity for further volume increases. This was due to several factors including the ongoing industrial action at BHP Mitsubishi Alliance's (BMA) Queensland mines, lower than anticipated customer demand for coal rail transport and wet weather which led to the temporary closure of several of our coal systems.

Coal tonnages were flat in Queensland compared to the prior year, but up 15 per cent in New South Wales reflecting our progress in that market. This resulted in a net 2 per cent improvement in coal volumes to 186 million tonnes compared to 2010–11.

Stronger bulk, general and intermodal freight volumes of 67 million tonnes compared to 62 million tonnes in the prior year contributed to an improved result for our freight business. In the Western Australian iron ore market, the Company continued to make solid progress, with the business doubling iron ore EBIT over the prior year and progressing to schedule its plans to achieve 30 million tonnes per annum in haulage by 2013–14.

Safety

QR National's journey towards becoming world class in safety progressed in 2011–12. Already, the Company stands among Australia's leaders in rail safety. Over recent years, the Company has implemented a range of safety, health and behavioural change campaigns targeting ***ZERO***HARM, injury prevention, road safety and workplace health and safety. These cultural change projects have driven a steady decline in the Lost Time Injury Frequency Rate (LTIFR), which reduced by 22 per cent to 2.40 recordable injuries per million hours in 2011–12. However, every injury is one too many and in the coming year we will continue the very important work of cementing the ***ZERO***HARM philosophy as a way of life for all our people.

Transformation

In December QR National transitioned to a new functional organisational structure, similar to that of the Class 1 railroads of North America. These rail companies are the global leaders across a range of metrics and performance measures including customer service and shareholder returns and we are drawing much inspiration from their performance and success.

The Company's restructure has been designed to accelerate our transformation and put the customer at the front and centre of all we do. In June, the next phase of this restructure was announced with a range of company-wide proposals targeting greater productivity and lower costs. These centre on the reduction of management and supervisory levels, the rationalisation of back-office support functions and non-core business activity and the consolidation of the Company's operations and commercial functions.

We acknowledge these are difficult reforms for many of our employees and we have taken a sensible and constructive approach during the consultation and implementation phases. Board and management however remain convinced on the imperative for change that will underpin a competitive, strong future for the Company. QR National's operating ratio, which sat at approximately 84 per cent in 2011–12 is too high when compared to our competitors and global rail industry peers. The Company has set an operating ratio target of 75 per cent to be achieved by 2015. With implementation of transformation and growth initiatives and continued tight operational and financial discipline we are focused on delivering on this target.

Growth

QR National strengthened its medium to long term position during the year through the advancement of growth opportunities in the target markets of Queensland, Western Australia and New South Wales. The Company has a unique value proposition to offer existing and new customers in the resources sector, premised on four key capabilities:

1. Our rail infrastructure construction and maintenance expertise
2. Our heavy haulage expertise honed over decades of export coal operations in Queensland
3. Our track record in successfully operating multi-user resource railways
4. Our proven ability to provide an integrated and scalable transport solution from mine to port.

QR National is midway through a program that is injecting another 71 million tonnes per annum of capacity into the Central Queensland Coal Network, lifting total system capacity to more than 300 million tonnes per annum by 2015. Two of Australia's largest rail expansions will contribute the bulk of this capacity, the Wiggins Island Rail Project (WIRP) and the Goonyella to Abbot Point Expansion (GAPE). Both of these major capital projects reached pivotal milestones during 2011–12, with the WIRP beginning construction early this year and the $1.1 billion GAPE project starting services ahead of schedule and on budget for our customers in December.

[1] Underlying results differ from the Group's statutory results. Refer reconcilliation to statutory earnings on page 69.
[2] Restated due to a retrospective application of a voluntary change in accounting policy relating to mechanised Ballast undercutting, as explained in note 1(q) on page 56.

Managing Director & CEO's Report (continued)

Beyond WIRP and GAPE QR National is progressing an expansion of our existing rail system in Central Queensland to facilitate the ongoing development of the Bowen and Galilee Basins. In June, we announced we are committing to the next stage of the planned expansion of the Goonyella/Newlands corridors by at least 25 million tonnes per annum, to 75 million tonnes per annum, by duplicating sections of GAPE.

The Company is also advancing work for the emerging Galilee Basin following the Queensland Government's decision in June to nominate a west-east common corridor for the Galilee, connecting with QR National's Central Queensland coal network.

In Western Australia, the Pilbara iron ore region offers one of the Company's most outstanding growth prospects. We are investigating an independent, multi-party railway to connect iron ore mines in the East Pilbara to Port Hedland. There is considerable work ahead to demonstrate the technical and commercial merits of such a project, however, its success would be of major strategic significance to QR National, delivering a step change in our national footprint and the diversification of our business.

Image: GAPE Track Duplication Kaile to Durroburra section – Nigel Green, Robert Merrel (contractor)

It is through these projects and others which are outlined on pages 12–13 of this Annual Report, that QR National has set an exciting course for our future growth, extending the Company's geographic reach to open new markets for our customers and to generate strong financial returns for our shareholders.

Outlook

The past year has shown the real value of the transformation underway at QR National and gives us good reason to be confident about the future. In the near-term, given the context of uncertain global economic conditions, we are expecting a continuation of softer coal demand in Queensland. The Company has provided guidance for coal volumes in the range of 195 to 205 million tonnes for 2012–13, which is dependent on minimal disruptions and no adverse shocks to the global economy.

Looking forward to the medium-term, however, we remain optimistic about the outlook for the markets we serve. We expect a more cautious and rigorous approach to investment decisions, but the fundamentals underpinning resource growth remain unchanged. The strong demand for resources from growth economies, such as India and China, will continue to bring opportunities for companies like QR National.

From a company perspective, QR National is strongly positioned for the future. We have a strong balance sheet and a program of solid growth opportunities set to expand the scale and diversity of our business. Undoubtedly, we will continue to face difficult decisions to ensure the continuing competitiveness of our company, but I believe with consistent and focused execution, QR National's growth and transformation strategy will deliver further performance improvements.

Acknowledgments

The Company's transition to a new structure in 2011–12 has been smooth, with business continuity maintained throughout and for this I am greatly in debt to my leadership team and our motivated, professional employees. It is to their credit that QR National rose to the challenges presented during the year and delivered a solid financial performance.

As always, we are grateful to QR National's highly valued customers for their business and trust in 2011–12. Across the Company, we are more determined than ever to meet and exceed our customers' expectations in all that we do.

Finally, on behalf of all of the employees at QR National, I would like to express our gratitude to our shareholders for your continued strong support of the Company and the strategic direction we are pursuing to bring you value in 2012–13 and beyond.

Lance Hockridge
Managing Director & Chief Executive Officer

Image: GAPE Leichhardt Yard, Northern Missing Link Project – ballast train – Martin Mills

Year in Review

Whether it is through our coal and freight transport operations or the extensive rail network we maintain and operate, QR National is moving a nation.

Our coal business is one of the largest rail transporters of coal anywhere in the world. We are the integral link between mine and port for coal producers at more than 50 mine sites, spread across Australia's six major coal chain systems. Having been a part of the coal industry since the beginning of the modern coal era we understand our customers' needs.

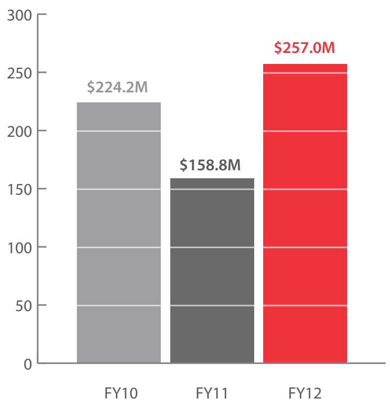
Operating primarily in Queensland and Western Australia our extensive freight business transports more than 60 million tonnes per annum. This includes bulk minerals and commodities like iron ore, agricultural products, mining and industrial inputs and general and containerised freight.

We also operate and manage the Central Queensland Coal Network (CQCN). The open access rail network is the largest coal rail network in Australia and one of the country's most complex rail freight networks with more than 100 trains running on the 2,670 kilometre network every day.

Year in Review (continued)

COAL

Coal – Underlying[3] EBIT



Business Summary

QR National's coal business is one of the world's largest rail transporters of coal from mine to port for export markets, hauling an average 500,000 tonnes a day. Servicing the majority of Australia's coal producers across more than 50 mine sites, QR National operates in each of Australia's six major coal chain systems: the Newlands, Goonyella, Blackwater, Moura and West Moreton systems in Queensland and the Hunter Valley coal system in New South Wales.

QR National has offered rail solutions to the coal industry since the start of the modern coal era in the 1960s. As the world's appetite for Australian coal grows QR National continues to be a major player and innovator in the coal industry. The Company plays a leadership role in driving supply chain improvements, working collaboratively with supply chain partners and customers.

Performance Overview

A range of negative factors translated into weaker than expected haulage volumes of 186 million tonnes for 2011–12. These factors included softer global coal demand, a slower than anticipated ramp-up of mine production following the 2010–11 Queensland floods and prolonged industrial disputes at some mines.

While Queensland coal tonnages were flat on the prior comparable period this was balanced by a 15 per cent increase in New South Wales coal volumes, for a net 2 per cent improvement compared to 2010–11 to 182 million tonnes.

Despite weaker volumes higher revenue rates increased 2011–12 revenue by 8 per cent to $1,828 million and revenue per net tonne kilometre (ntk) by 5 per cent. Underlying[3] EBIT increased by 62 per cent, or $98 million, to $257 million, due to stronger above rail revenue rates, receipt of contract performance payments, reduced labour costs and reduced maintenance costs.

The ntk improvement was achieved through improved revenue quality due to the ongoing introduction of new performance-based contracts which deliver higher returns and growth in margins.

The continuing renegotiation of legacy contracts was progressed during 2011–12 with coal volumes under new form contracts now at approximately 38 per cent. These new contracts provide customers with greater certainty and flexibility to meet unexpected increases in volume in return for more favourable revenue protection arrangements in the form of capacity charges.

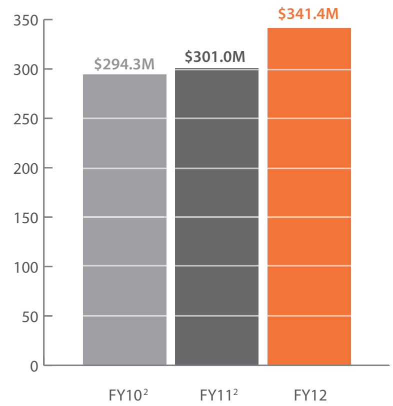
Coal – Key Financials and Metrics

	FY11	FY12	VARIANCE
Tonnages (million)	181.6	185.6	2 %
ntk (billion)	40.9	41.9	2 %
Revenue ($m)	1,691	1,828	8 %
EBITDA ($m)	369	441	20 %
Margin %	22 %	24 %	2 ppt
EBIT ($m)	159	257	62 %
Margin %	9 %	14 %	5 ppt
Capital Expenditure[1] ($m)	451	123	– 73 %
Revenue / NTK (A$/000 NTK)	41.4	43.6	5 %
Opex / NTK (A$/000 NTK)	37.5	37.5	0 %
Operating Ratio	91 %	86 %	5 ppt

[1] Excludes capitalised interest

NETWORK SERVICES

Network Services – Underlying[3] EBIT



[2] Restated due to a retrospective application of a voluntary change in accounting policy relating to mechanised Ballast undercutting as explained in note 1(q) on page 56.

Business Summary

QR Network operates and manages the Central Queensland Coal Network, which is the largest export coal rail network in Australia and comprises the major coal systems in Queensland's Bowen Basin. This 2,670 kilometre track network comprises four major coal systems: Moura, Blackwater, Goonyella and Newlands.

Performance Overview

Lower coal tonnages from the lingering impacts of the 2011 floods on mine production combined with lower production at Queensland coal mines as a result of softer global demand and industrial action at some mines led to flat railings across the network of 167 million tonnes, up 2 per cent from 164 million tonnes in 2010–11. Though tonnages were flat, access revenue increased due to the combination of Goonyella to Abbot Point Expansion (GAPE) revenue at commercial returns commencing in January 2012 and tariffs being set at a lower forecast tonnage level.

[3] Underlying results differ from the Group's statutory results. Refer reconciliation to statutory earnings on page 69.


Image: Pring facility – Sam Merrypor

Network Services contributed full year revenue of $1,210 million and underlying[3] EBIT of $341 million, up on the prior comparable period by 3 per cent and 13 per cent respectively.

Work continued on a number of strategic growth projects to position the Company to capture the forecasted increase in coal production over coming years with capital expenditure for the year totalling $663 million. During the year, the Company delivered the $1.1 billion GAPE project, the largest single growth project on the Central Queensland Coal Network. Construction also began on the Wiggins Island Rail Project. Further details about QR National's growth projects in the Network business are contained on pages 12–13 of this Annual Report.

Network Services – Key Financials and Metrics

	FY11[2]	FY12	VARIANCE
Tonnages (million)	164.0	166.7	2 %
ntk (billion)	40.0	41.2	3 %
Revenue ($m)	1,180	1,210	3 %
EBITDA ($m)	466	527	13 %
Margin %	39 %	44 %	5 ppt
EBIT ($m)	301	341	13 %
Margin %	26 %	28 %	2 ppt
Capital Expenditure[1] ($m)	683	663	– 3 %
Access Revenue / NTK (A$/000 NTK)	17.4	18.1	4 %
Maintenance $ / '000 NTK	2.5	2.6	4 %
NTK / Track km (000's)	17,558	17,518	0 %
Operating Ratio	75 %	72 %	3 ppt

[1] Excludes capitalised interest

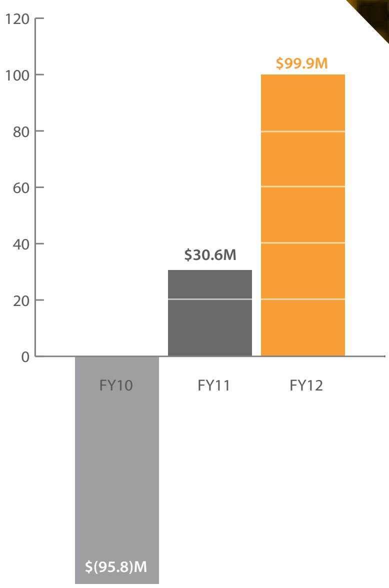
[2] Restated due to a retrospective application of a voluntary change in accounting policy relating to mechanised Ballast undercutting as explained in note 1(q) on page 56.

Business Summary

QR National's freight business transports more than 60 million tonnes per annum of bulk minerals and commodities including iron ore, agricultural products, mining and industrial inputs and general and containerised freight.

FREIGHT

Freight – Underlying[3] EBIT



The bulk business operates primarily in Queensland and Western Australia providing transport services to the mining sector and a range of companies marketing chemical, industrial and agricultural products. QR National is Australia's largest iron ore haulier outside of Western Australia's Pilbara region.

The intermodal business offers containerised rail freight and road haulage services nationally from Cairns through to Perth. It includes a network of freight terminals and distribution centres located near major transport hubs and warehouses and storage facilities across five states.

Performance Overview

Total revenue in the Freight business grew 19 per cent in 2011–12, or $247 million, to $1,524 million, over the prior year. Underlying[3] EBIT grew by 226 per cent, or $69 million, to $100 million.

This result included sustained growth from the national bulk business, iron ore in Western Australia and the intermodal business together with the ongoing Transport Services Contract with the Queensland Government for the provision of general freight and livestock services to Queensland customers.

Capital expenditure grew from $196 million to $332 million to support iron ore growth projects which is expected to result in iron ore tonnages tripling between 2010 and 2014.

Freight – Key Financials and Metrics

	FY11	FY12	VARIANCE
Tonnages (million)	61.5	66.6	8 %
ntk (billion)	19.0	21.0	11 %
Revenue ($m)	1,277	1,524	19 %
EBITDA ($m)	89	173	94 %
Margin %	7 %	11 %	4 ppt
EBIT ($m)	31	100	226 %
Margin %	2 %	7 %	5 ppt
Capital Expenditure[1] ($m)	196	332	69 %
Revenue / NTK (A$/000 NTK)	67.3	72.6	8 %
Opex/ NTK (A$/000 NTK)	65.7	67.8	3 %
Operating Ratio	98 %	93 %	5 ppt

[1] Excludes capitalised interest

[3] Underlying results differ from the Group's statutory results. Refer reconciliation to statutory earnings on page 69.

Growth

QR National has a broad portfolio of capital projects that will help create long term growth for the Company and our valued customers. These initiatives, which are at various stages of investigation and development and across our major product lines, are set out in the following pages.

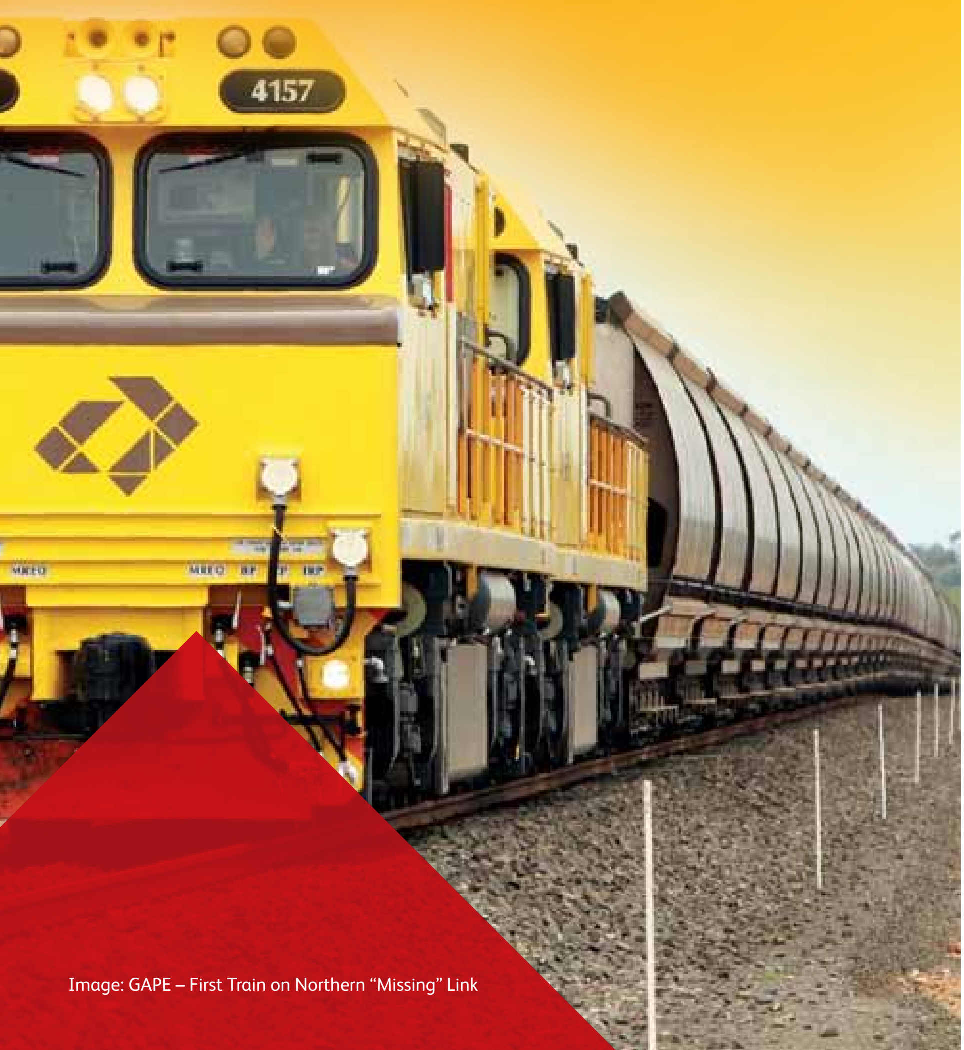


Image: GAPE – First Train on Northern "Missing" Link

Goonyella to Abbot Point Expansion

QR National unveiled a new transport link for the Queensland coal industry in December 2011, opening the $1.1 billion Goonyella to Abbot Point Expansion project (GAPE) in the northern Bowen Basin coalfields. Construction of the 69-kilometre Northern "Missing" Link was the central component of the GAPE project, coupled with major upgrades to the existing Newlands and Goonyella coal systems. The GAPE project enables up to 50 million tonnes of coal a year to be railed to the upgraded Abbot Point Coal Terminal which is more than double the present capacity and provides the platform for potential future expansions of 200 million tonnes and more. Despite the challenges of Queensland's extraordinary wet weather in 2010–11, the GAPE project was commissioned a month ahead of schedule, with final associated works completed by year end. It demonstrated the Company's strong capability to build major rail infrastructure, aligned to customer and market demand, on time and budget.

Wiggins Island Rail Project

In September 2011, QR National signed an agreement with a consortium of coal companies to construct the $900 million Wiggins Island Rail Project to service the new Wiggins Island Coal Export Terminal (WICET) at the Port of Gladstone. The project will support the initial 27 million tonnes per annum of coal to WICET and leverage QR National's existing rail infrastructure to boost coal exports from the southern end of the Bowen Basin by 30 per cent. Construction began in March 2012 with timeframes aligned to the coal export terminal and the development of related mining projects. First railings are scheduled for mid-2014 with overall project completion by March 2015. The Wiggins Island Rail Project is QR National's first major rail infrastructure investment since the Company was listed.

Blackwater Electrification

The $195 million Blackwater Power Strengthening Project is scheduled for completion in the first quarter of 2012–13. The project will nearly double the electrical capacity on the Blackwater rail system in Central Queensland which connects coal mines west of Rockhampton (in the south Bowen Basin) to the export terminals at Gladstone. The project involves the expansion of the Blackwater electric traction system, including four electrical feeder stations and associated infrastructure at Bluff, Wycarbah, Duaringa and Raglan, between Blackwater and Mount Larcom. The project, which is the largest electrical upgrade since the initial electrification of the network in the 1980s, provides coal customers with greater flexibility for rail haulage on the Blackwater rail system.

Goonyella System Expansion

QR National continues to progress a $185 million expansion to increase the Goonyella system capacity from 129 to 140 million tonnes per annum. This is supporting a project by BHP Billiton Mitsubishi Alliance (BMA) to lift the capacity at Hay Point Coal Terminal, near Mackay in Queensland. Delivery of the capital project will be aligned to the port expansion that is due to come on line in early 2014. The project includes an electricity feeder station as well as track duplication.

Surat Basin Railway

QR National is a one third joint-venture partner in the Surat Basin Railway, with the ATEC Rail Group and Xstrata Coal. The proposed Surat Basin Rail includes a new 210 kilometre rail corridor from Wandoan to the Moura system near Banana, 130 kilometres west of Gladstone. The Surat Basin Railway will align with the second stage of the development of the Wiggins Island Coal Export Terminal. Pending the necessary approvals, Surat Basin Rail is working toward a final investment decision on the project in 2013 with construction to follow thereafter. QR National is also progressing feasibility and design work on a capacity increase for the Moura line that will connect with the Surat Basin Railway.

Bowen and Galilee Basin Expansion

In January 2012, QR National's Central Queensland Integrated Rail Project (CQIRP) was declared a "significant project" by the Queensland Co-ordinator General. Subsequently the Company welcomed an announcement by the Queensland Government in June to facilitate development of the Bowen and Galilee Basins via an expansion of QR National's existing rail system. The project is focused on delivering an innovative supply chain solution for Queensland's coal sector comprising both above and below rail. The first stage includes QR National's commitment to expand the current capacity on the Goonyella/Newlands corridors by at least 25 million tonnes per annum.

QR National is also progressing a proposal for the staged development of a west to east common corridor and supporting north-south connections, connecting new Galilee mines to the existing coal network near North Goonyella mine. These expansions will be undertaken in consultation with customers to ensure alignment with their development plans and to support growth of the Queensland resources sector. The Company is working closely with customers on their preferred solution and recently signed with miners Vale and Adani to explore rail solutions for their new mines in both the Galilee and Bowen Basins.

Expansions of the existing coal chain offers producers efficient, cost effective rail solutions to support the development of new resources in a competitive global coal market, while also minimising impact on the environment and regional and rural communities. The Central Queensland coal network represents a unique and highly valued asset which the Company aims to continue to grow for the benefit of our customers and for the sustainability of the coal industry in Queensland.

Hexham Train Maintenance Facility

Since commencing operations in the Hunter Valley coal region in 2005, QR National has secured significant market share. As the business expands the Company continues to make significant investments to support future growth with $385 million committed between FY10–FY12 in 19 new 5020-class locomotives, 800 wagons and supporting infrastructure.

During 2011–12, QR National signalled its long term commitment to the Hunter Valley by announcing plans for a modern train support facility at Hexham, near the Port of Newcastle. The 255 hectare project site at Hexham is a strategic parcel of industrial land that QR National has owned since 2008. At an estimated capital cost of $100 million the proposed Hexham facility will support the Company's growing New South Wales coal haulage business and help alleviate capacity pressures in the Hunter Valley coal supply chain. QR National plans to redevelop approximately 30 hectares of the site for the facility. The balance of the land will be environmental reserve and available for future use. The detailed design phase has begun and depending on government planning approvals and consultation with stakeholders QR National plans to have the facility operational by mid 2014.

Iron Ore haulage growth

QR National is the fastest growing haulier of iron ore outside the Pilbara. The Company has positioned itself for involvement in the expanding iron ore haulage markets in Western Australia and has invested heavily in new facilities, rollingstock and people to grow the iron ore business. With cornerstone customers – Cliffs Natural Resources, Karara Mining Limited, Mt Gibson Iron and Mineral Resources – the Company is on track to triple the size of the iron ore haulage business to 30 million tonnes per annum by 2014.

Independent Pilbara Railway

QR National's unique heavy haulage railway capability and expertise in building and operating multi-user railways, presents a niche opportunity in the Western Australian iron ore market which is currently dominated by single-company railways. The Company is evaluating the development of a standard gauge, multi-party railway to connect iron ore mines in the East Pilbara to Port Hedland. The value of an independent railway is that economies of scale can be achieved by aggregating the tonnages of multiple parties, as well as delivering efficiency gains across a co-ordinated supply chain. The current use of road haulage is not sustainable or efficient for large scale tonnages.

The Company is working with Atlas Iron and Brockman Resources to jointly study a proposal to service iron ore deposits of Atlas, Brockman and other miners in the first stage of the proposed infrastructure development. The railway would be developed on the basis of miners connecting and accessing the railway through staged development. The study is expected to be completed by the end of 2012. Any developed proposal would be subject to further agreement between each company and the approvals and investment hurdles of their respective Boards, however, commencement of operations for the initial stages could commence in 2015.

Moorebank

During 2011–12, QR National exercised its pre-emptive rights to acquire additional equity in the Moorebank Industrial Property Trust (MIPT) for $41 million taking the Company's stake in the site to 33 per cent. Qube Logistics holds the remaining 67 per cent. The Moorebank site is a key strategic development for Sydney land based logistics and a critical component in the growth of Australia's intermodal freight sector. QR National acquired its original stake in Moorebank in 2007 because of its strategic value for future land based freight logistics. The 83 hectare site requires redevelopment to accommodate a multi-user open access intermodal rail facility with a capacity of up to one million containers per year and enabling rail links to the interstate network and to Port Botany. The development proposal for the site is significantly advanced and an environmental assessment (EA) of the concept plan for the project has been recently lodged with New South Wales planning authorities. Subject to approvals by the Federal Government and the NSW Government and agreement with the current tenant of the property, the Department of Defence, the Moorebank site development could be completed during 2014.

Sustainability

QR National's operations are underpinned by our commitment to economically viable, environmentally sound and socially responsible performance. Our approach seeks to minimise risk to the environment while contributing to the economic growth and development of the communities in which we operate.

Image: Graduates Renee Johnson, Darnah Egert, Tony Cao

SAFETY

At QR National, the safety of our employees, our customers and the communities in which we operate is our number one priority. Our safety goal of ***ZERO***HARM means no injuries to anyone, ever.

QR National has a comprehensive approach to safety and risk management, which includes targeted internal initiatives to improve safety culture and to establish robust safety systems and behaviours among the workforce.

Our aim is to become world class in safety, and the Company is already among Australia's leaders in rail safety. This steadfast commitment to safety is also the basis of our drive for continuous improvement across the Company.

QR National's Central Safety Committee, which includes the Managing Director & CEO, his direct reports and other senior executives, is tasked with leading, reviewing and directing the implementation of all safety programs. Its core function is to promote and advance safety at QR National.

QR National has sought to embed our safety culture in the mindset of every employee and to prioritise ***ZERO***HARM as a way of life. During the year, we implemented a range of safety, health and behavioural change campaigns targeting ***ZERO***HARM, injury prevention, road safety, and workplace health and safety.

In February 2012, QR National announced a long-term sponsorship with the Heart Foundation. This partnership is a key part of our commitment to the health and well-being of our employees. The Heart Foundation program promotes a healthy lifestyle and the importance of early detection of stroke to our employees and their families.

Throughout the year, the Company continued to build on the safety focused Communities of Competence program. Communities of Competence provides a collaborative, co-ordinated and best-practice approach to targeting critical safety areas for the Company, including Trackside Safety, Road Safety, Isolation and Lockout, Fitness for Work, Derailments, Signals Passed At Danger, and Peer Review.

These safety based cultural change programs have delivered significant improvement in our safety performance over the past few years, in particular, a decline in our Lost Time Injury Frequency Rate (LTIFR). Since June 2009, QR National has achieved a 79 per cent reduction on our LTIFR from 11.43 to 2.40 as at 30 June 2012.

Rail safety in the community is an important area of focus for QR National. We are an active participant in the Australasian Railway Association's TrackSAFE Foundation, which is working to reduce incidents on rail networks. Our Company also implemented several targeted rail safety programs in the communities in which we operate over the past year.

Between February and June 2012 QR National worked collaboratively with Queensland Rail on a community based rail safety program in Central Queensland. The campaign targeted local schools, transport operators, local businesses and community groups to promote rail safety. In May 2012 we also launched a campaign targeted at transport operators in Queensland to promote electrical safety on the rail network, in conjunction with the Department of Transport and Main Roads.

QR National is in the process of investing $15 million to upgrade level crossings with boom gates and/or flashing lights on the Central Queensland Coal Network. We are also contributing $10 million to build a rail overpass at Gracemere (near Rockhampton). When complete in early 2013 two level crossings in Queensland on the Blackwater line at Somerset Road and Malchi-Nine Mile Road will be permanently closed.

In New South Wales, as part of the Company's three-year sponsorship of the Newcastle Knights, the Company launched a rail safety education program in March. Hundreds of school children in the Hunter region will learn about the dangers of rail level crossings and trespassing over the next three years through the program.

Road safety is a critical issue, both inside and outside of work, for our employees. In September 2011, QR National launched a company wide campaign to encourage employees (and their families and friends) to be safe on the roads. The 'Thanks Mate' campaign acknowledges that most people drive and ride safely and it aims to reinforce this positive behaviour.

A range of road safety topics which have been addressed through the campaign over the past 12 months are key contributors to the Australian road toll including speeding, drink driving, fatigue, not wearing a seatbelt, distractions, pedestrian and cycle safety, motorcycle safety, and driving to the conditions.

PEOPLE

In positioning QR National for long term growth and superior performance, the Company is committed to developing a highly skilled and diverse workforce. Our greatest strength will always be our people and the capability they bring to the business each and every day.

The Company's 9,000 employees live and work in those local communities throughout Australia where we operate. The majority of our employees live and work in regional Australia, outside of State capitals.

Our Values

- Safety
- Integrity
- Leadership, Passion and Courage
- World Class Performance.

QR National's values are an integral component of the Company's new Code of Conduct (Code), which was launched nationally in July 2011. The Code clearly identifies a high set of expectations in the way members of our workforce interact with one another, our customers and other stakeholders, to ensure our business is respected for its safe, professional, honest and commercial outlook.

This includes all employees

- Targeting ***ZERO***HARM
- Living our values and complying with our policies, standards and other management frameworks
- Valuing and appreciating each others' unique contributions to the Company's future and treating one another with respect.

An e-learning module was implemented during the year to assist all QR National employees to understand the Code. This training package was recognised with an award at the Asia Pacific Learning and Technology Impact Awards 2012.

For more information on QR National's Values, please refer to the Corporate Governance Statement on page 39 of this Annual Report. The Code is available on the Company's website at **www.qrnational.com.au/Corporate/Pages/Governance.aspx**

Diversity

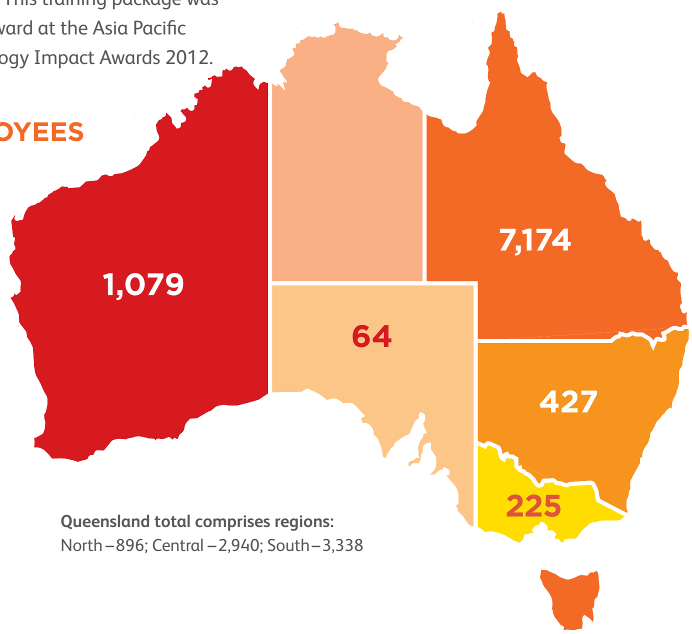
QR National recognises the social and commercial value of a diverse workforce that is representative of Australian society. The Company continues its efforts to build a stronger female workforce in a traditionally male dominated industry, recognising that such diversity will produce more innovative outcomes for our stakeholders.

QR National's Diversity Council and its leadership team have been tasked with ensuring frontline leaders in our workforce strive for diverse teams. The number of female employees has increased by six percent in 2011–12. Across the workforce 12.3 per cent of employees are female. The Diversity Council has an explicit focus on gender diversity, setting specific targets and launching initiatives to support our diversity goals.

As part of our commitment under the Australian Employment Covenant to provide sustainable job opportunities for Indigenous Australians, QR National continued our Indigenous employment journey during 2011–12. QR National is committed to working closely with Indigenous communities to attract and retain at least 400 Indigenous employees, while providing support mechanisms for the development of long-term careers with the Company.

Further details on the Company's diversity policy and performance are set out in the Corporate Governance Statement on page 39 of this Annual Report.

TOTAL EMPLOYEES 8,969



Queensland total comprises regions:
North – 896; Central – 2,940; South – 3,338

PEOPLE (CONTINUED)

'Grow our own'

We know that attracting the right people and nurturing a pipeline of talent is critical to QR National's future commercial success.

The Company provides employees with internal promotion opportunities across the nation, working with employees to improve performance and build capabilities through apprenticeships, traineeships and graduate programs.

QR National's approach to attracting and retaining talent in particular labour segments is supported by the implementation of the 'grow our own' strategies. The Company's commitment to increase the intake of graduates, apprentices and trainees to 300 per annum by 2013 is well underway, with a 2011–12 intake of 219 compared to a target of 200.

Work has begun in earnest to recruit 300 apprentices, graduates and trainees for 2012–13. Following a fresh, targeted attraction campaign during the year, the Company recorded a 144 per cent increase in graduate applications. Overall female applications increased by 166 per cent which was an extremely positive outcome for the Company's promotion of gender diversity.

Enhanced partnerships with Indigenous community groups and secondary schools have also increased the number of Indigenous employment opportunities for apprentices and trainees. An Indigenous Ambassador works with QR National managers in targeted areas to strengthen community connections which is resulting in a higher level of interest in work experience placements and school based apprenticeships.

Image: Graduate – Renee Johnson

ENVIRONMENT

Environmental sustainability is an important area of focus for QR National. As one of Australia's largest rail transport providers, QR National acknowledges the important role it can play in leading environmental sustainability for customers, communities and for the transport industry generally.

Environmental Policy

In adopting a proactive approach to mitigating the Company's environmental footprint, a company wide Environmental Policy is in place to guide continuous improvement in environmental performance of the operational activities and services QR National provide. Under this Policy, the Company assesses environmental risk before undertaking activities. QR National employees are accountable for ensuring all business activities, facilities and equipment within their area of responsibility are managed in accordance with this Policy.

This policy is available on the Company's website at: **www.qrnational.com.au/Corporate/Pages/Environment.aspx**

Energy

During 2011–12 QR National continued to improve processes to ensure the Company's environmental obligations were met and managed and energy efficiency savings identified.

QR National met all of its obligations under the National Greenhouse Energy Reporting (NGER) Act 2007 (Cth) and Energy Efficiency Opportunity (EEO) Act 2006 (Cth) during the period. The Company received renewed confirmation of registration under the NGER Act on 26 September 2011 and the EEO Act on 29 May 2012. An independent regulatory audit of QR National's NGER report for 2010–11 confirmed the report was in accordance with section 19 of the NGER Act in all material respects.

An automated e-learning Environmental Compliance module was developed during the year to allow live compliance tracking against 100 per cent of our compliance requirements and to collate and track NGER data.

In a new initiative, the Company implemented data loggers and event recorders on a number of our train consists. The New South Wales Hunter Valley Coal System is trialling the use of event recorders on the 5020-class locomotives for safety and fuel consumption improvements. Early studies show the data loggers, when combined with adequate training and analytics, can deliver an estimated 10 per cent saving in fuel use.

An EEO Steering Committee was established in 2011–12. The Committee oversees compliance responsibilities, undertakes assessments and identifies new opportunities for energy efficiency. The Committee will also progress a number of previously identified opportunities to achieve energy efficiencies across the QR National business including improving driver performance via training and feedback systems and the introduction of new generation IAC traction locomotives.

Carbon

QR National is committed to finding and adopting environmentally sound practices to effectively reduce the Company's carbon footprint across its operations. Rail freight is up to 10 times more fuel efficient and produces up to 10 times less carbon emissions than road transport, highlighting the inherent environmental advantages of rail over road.

On 1 July 2012 the Federal Government introduced a carbon tax levied at $23 per tonne. QR National will not be required to trade in permits but will see an increase in costs through an adjustment of fuel tax rebates and electricity tariffs. To ensure a smooth transition to the new program, a carbon tax working group was established during the year to evaluate the implications of the tax and to notify customers of pricing changes. The financial impact of the carbon tax on QR National will be minimal.

Coal Dust

During 2011–12, QR National collaborated with the coal industry in Queensland to implement a Coal Dust Management Plan. This involves the implementation of spray stations with dust suppressing chemicals, known as "veneers", to reduce coal dust produced from wagons. Over the course of the year, QR National installed 12 veneering stations to service 13 mines in Central Queensland. It is planned that all Central Queensland mines will have the spray stations installed by December 2013.

COMMUNITY

Community Commitment

As an engaged corporate citizen, QR National has designed its social investment portfolio to enhance and support communities, its employees and customers in three broad areas: health and well being, community safety and education.

As Queensland communities began the recovery process from the previous year of devastating natural disasters, QR National increased its contributions to communities where it operates and employees reside through dedicated company programs and partnerships.

QR National's commitment to communities encompasses charitable gifts and donations, in-kind support, community investment and commercial initiatives.

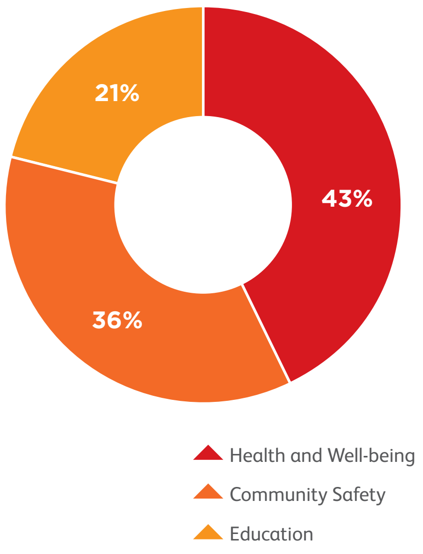
Community Giving

In September 2011 QR National announced the launch of its dedicated charitable grants program, the Community Giving Fund. The Community Giving Fund is a national bi-annual round of cash grants to non-profit organisations. These grants have been designed to help improve and sustain local communities with their immediate and long-terms needs.

During the year QR National's Community Giving Fund distributed grants ranging from $1,000 to $20,000 to more than 53 charities across the nation.

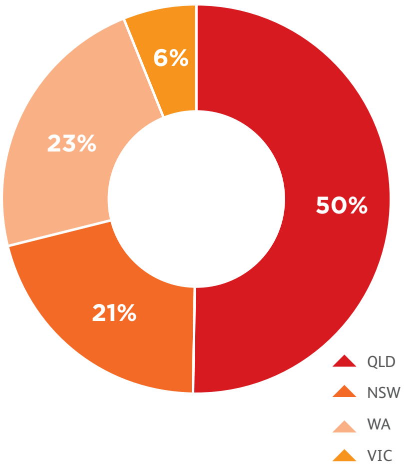
Community Giving Fund

Focus area %



Community Giving Fund

By region %



A full listing of QR National's Community Giving Fund recipients is available on the Company's website at: **www.qrnational.com.au/community**

In May 2012 QR National was awarded the Charities Aid Foundation 2012 Community Award, acknowledging the efforts of companies and foundations excelling in community giving.

Assisting Families in Need

QR National provides an in-kind freight assistance program supporting a number of Queensland charities in the distribution of donated goods (such as recycled clothing and books) to struggling families in need.

During 2011–12, the QR National in-kind freight support provided assistance to charities including:

- The Salvation Army
- Lifeline
- Australian Red Cross
- St Vincent de Paul.

Annually, QR National and its employees donate to a number of charities, including The Salvation Army Christmas Toy Appeal and the Red Shield Doorknock Appeal.

Community Partnerships

During the year QR National announced national, regional and local community and commercial partnerships forming part of our broader social investment portfolio.

Expanding our Reach

In November 2011, QR National entered into a major regional partnership, the first outside of Queensland, announcing a dual-club sponsorship with the Hunter Sports Group as Major Sponsor of the Newcastle Knights and Newcastle Jets.

This regional partnership supports the Company's national business growth, as well as assists in improving brand awareness and employee attraction and retention. The partnership provides an extensive range of community initiatives, including a Rail Safety Term (targeting over 1,000 school children with rail safety messaging), an employee health and well-being program, community recognition programs and gala days.

Making a Difference

On 14 February 2012 QR National announced a three year national partnership with the Heart Foundation in a mission to raise awareness of Australia's number one disease and to prevent cardiovascular-related deaths across the nation.

As one of the most recognised charities in Australia, the Heart Foundation plays an important role in providing Australians with the best heart health information and raising funds for life-saving research.

As a Foundation Sponsor of the Heart Foundation, QR National is the largest supporter of this charity, involved with flagship programs such as their national Warning Signs campaign, Go Red for Women, Workplace Walking Groups, and Jump Rope for Heart. The partnership also conducts between 30 and 50 depot site visits across the organisation in a bid to raise awareness and bring change to employee health and well-being.

Continuing to Support the CQNRL Bid

During the year QR National continued its support of the Central Queensland National Rugby League (CQNRL) in its bid for a national rugby league licence in the Central Queensland region. The bid covers a large area of our operations within Central Queensland — stretching as far north as Mackay, south to Bundaberg and west to the border. With a large portion of the Company's employees living or working in the area, the Company is proud to back the bid for a second year. As part of its support of the CQNRL Bid, QR National continued its health, well-being and education focus with a dedicated scholarship program and more than 120 visits to local schools.

Support at a Local Level

Functional areas across QR National also provide local support aligning with our business interests or geographic reach. Some of our partners include the Esperence Tradies of Tomorrow, Mackay Bike Safety, North Queensland Bush Children's Program, Gladstone Botanic to Bridge Fun Run, Alligator Creek State School Shade Program, Tannum Sands Surf Life Saving Club and the Collinsville Youth Hall and Sporting Facility.

An overview of QR National's local partnerships is available on the Company's website: **www.qrnational.com.au/community**

Directors' Report

QR National Limited Directors' Report

For the year ended 30 June 2012

The Directors of QR National present their Directors' Report together with the Financial Report of the Company and its controlled entities (collectively, "**the Consolidated Entity**" or "**the Group**") for the financial year ended 30 June 2012 and the Independent Auditor's Report thereon. This Directors' Report has been prepared in accordance with the requirements of Division 1 of Part 2M.3 of the Corporations Act.

Board Of Directors

The following people are Directors of the Company, or were Directors during the reporting period:

J B Prescott AC
(appointed 14 September 2010)
(Chairman, Independent Non-Executive Director)

L E Hockridge
(appointed 14 September 2010)
(MD & CEO)

G T John AO
(appointed 14 September 2010)
(Independent Non-Executive Director)

J Atkin
(appointed 14 September 2010)
(Independent Non-Executive Director)

R R Caplan
(appointed 14 September 2010)
(Independent Non-Executive Director)

A J P Staines
(appointed 14 September 2010)
(Independent Non-Executive Director)

G T Tilbrook
(appointed 14 September 2010)
(Independent Non-Executive Director)

K L Field
(appointed 19 April 2012)
(Independent Non-Executive Director)

J D Cooper
(appointed 19 April 2012)
(Independent Non-Executive Director)

A J Davies
(appointed 14 September 2010)
(resigned 13 December 2011)
(Independent Non-Executive Director)

P C Kenny
(appointed 14 September 2010)
(passed away 8 October 2011)
(Independent Non-Executive Director)

Details of the experience, qualifications and special responsibilities and other Directorships of listed companies in respect to each of the directors as at the date of this Directors' Report are set out in the pages following.

J B Prescott AC

Experience:
Mr Prescott has substantial experience in the mining, manufacturing, transport and government sectors. He was a long term executive of The Broken Hill Proprietary Company Limited (now BHP Billiton Limited), serving 10 years as an Executive Director and seven years as Managing Director and Chief Executive Officer (1991–98). He was also Chairman of ASC (formerly Australian Submarine Corporation Pty Ltd) from 2000–2009.

Mr Prescott has been a Director of Newmont Mining Corporation, a Global Counsellor of The Conference Board since 2001 and a member of the Commonwealth Remuneration Tribunal since 2010. Other Directorships and consulting/advisory positions have included Conference Board USA, World Economic Forum, Booz Allen and Hamilton, J.P. Morgan Chase & Co, Proudfoot Consulting, and Asia Pacific Advisory Committee of New York Stock Exchange.

Qualifications:
BCom (Indus Rel), HonDsc, HonLLD, FAICD, FAIM, FTSE

Special Responsibilities:
Member of:
(i) Governance & Nomination Committee
(ii) Remuneration & Succession Committee
(iii) Safety & Environment Committee

Australian Listed Company Directorships held in the past three years
None other than QR National Limited.

L E Hockridge

Experience:
Mr Hockridge joined QR Limited as Chief Executive Officer in 2007 with extensive experience in the transportation and heavy industrial sectors in Australia and the United States. He is a Director of a number of QR National Limited wholly owned subsidiaries and Chairman of the Australasian Railway Association. During a 30 year career with The Broken Hill Proprietary Company Limited (now BHP Billiton Limited) and BlueScope Steel, Mr Hockridge was a member of the leadership team that led to BlueScope Steel's successful demerger from BHP and the creation of a new publicly listed company.

In 2005, Mr Hockridge was appointed President of BlueScope Steel's North American operations, where he led a major turnaround in safety, production and financial performance. Other roles at BHP included human resources and industrial relations, General Manager of BHP Transport, Head of Long Products Business and President of Industrial Markets.

Qualifications:
FCILT, FAIM, MAICD

Special Responsibilities:
Director of QR Network Pty Ltd
Member of:
(i) Governance & Nomination Committee
(ii) Safety & Environment Committee

Australian Listed Company Directorships held in the past three years:
None other than QR National Limited.

J Atkin

Experience:

Mr Atkin has more than 25 years experience in financial services and the legal profession in Australia and internationally.

Mr Atkin is Chief Executive Officer of The Trust Company Limited, a Director of The Australian Outward Bound Foundation and a member of the Financial Services Advisory Council of the Australian Government. Previously, Mr Atkin was Managing Partner of Blake Dawson (2002-2008) and a Corporate and Mergers & Acquisitions partner at Mallesons Stephen Jacques (1987-2002). During the period he was a practising lawyer Mr Atkin was widely regarded as one of the leading corporate lawyers in Australia.

Qualifications:

BA (Hons), LLB (Hons), FAICD

Special Responsibilities:

Chairman of Governance & Nomination Committee
Director of QR Network Pty Ltd

Australian Listed Company Directorships held in the past three years:

The Trust Company Limited – CEO and Executive Director
Commenced – 19 January 2009 (ongoing)

R R Caplan

Experience:

Mr Caplan has extensive international experience in the oil and gas industry. In a 42 year career with Shell, he held senior roles in the upstream and downstream operations and corporate functions in Australia and overseas. From 1997 to 2006 he had senior international postings in the UK, Europe and the USA. From 2006 to July 2010 he was Chairman of the Shell Group of Companies in Australia.

Mr Caplan is Chairman of the Melbourne and Olympic Parks Trust, Chairman of the Cooperative Research Centre for Contamination Assessment and Remediation of the Environment, a Non-Executive Director of Orica Limited and member of the Board of the Committee for the Economic Development of Australia (CEDA). He is a former Non-Executive Director of Woodside Petroleum Limited and the former Chairman of the Australian Institute of Petroleum.

Qualifications:

LLB, FAICD

Special Responsibilities:

Chairman of Remuneration & Succession Committee
Member of Audit & Risk Management Committee

Australian Listed Company Directorships held in the past three years:

Orica Limited – Non-Executive Director
Commenced – 1 October 2007 (ongoing)

G T John AO

Experience:

Mr John has 30 years management experience in the transport operations sector including 16 years as Managing Director of Australia Post. He was also a Senior Executive of TNT Australia Ltd.

Mr John is a Director of Seven West Media Ltd, Racing Victoria and a commissioner of the Australian Football League. His previous roles include Chairman of Australian Air Express, Chairman of Star Track Express, Chairman of the Kahala Posts Group, Director of the International Post Corporation (Netherlands), Vice Chairman of Sai-Cheng Logistics International (China) and a trustee of the Committee for Melbourne and the MCG. He has received the Australian Sports Medal and Centenary Medal.

Qualifications:

FCILT, MAICD

Special Responsibilities:

Chairman of Safety & Environment Committee
Member of Remuneration & Succession Committee
Director of QR Network Pty Ltd

Australian Listed Company Directorships held in the past three years:

Seven West Media Ltd – Non-Executive Director
Commenced – 3 December 2008 (ongoing)

K L Field

Experience:

Mrs Field has more than 30 years experience in the mining industry in Australia and overseas and has a strong background in human resources and project management.

Currently Mrs Field is a Non-Executive director of a number of listed and unlisted entities including Sipa Resources Limited and Water Corporation of Western Australia. Prior to this, Mrs Field held Non-Executive Directorships with the Centre for Sustainable Resource Processing, Electricity Networks Corporation (Western Power), MACA Limited and Perilya Limited.

In addition Mrs Field is a Director of a number of community based organisations including aged care provider Amana Living Inc, The Gravity Discovery Centre Foundation and the University of Western Australia's Centenary Trust for Women.

Qualifications:

B Econ, MACD

Special Responsibilites

Member of
(i) Audit & Risk Committee
(ii) Remuneration & Succession Committee

Australian Listed Company Directorships held in the past three years

Sipa Resources Limited – Independent Non-Executive Director
Commenced – 16 September 2004 (ongoing)
MACA Limited
(27 May 2011 – 1 May 2012)
Perilya Limited (16 August 2007 – 5 February 2009)

J D Cooper

Experience:

Mr Cooper has more than 35 years experience in the construction and engineering sector in Australia and overseas. Currently, Mr Cooper is Chairman and Non-Executive Director of Southern Cross Electrical Engineering Limited and also holds Non-Executive Directorships with NRW Holdings Limited, Flinders Mines Limited and Neptune Marine Services Ltd.

During his career as an executive Mr Cooper's roles have encompassed large civil, commercial and infrastructure projects and complex engineering and project management activities in the mining, oil and gas, engineering and property sectors.

Qualifications:

BSc (Building), FIE Aust, FAICD, FAIM

Special Responsibilities:

Member of Safety & Environment Committee

Director of QR Network Pty Ltd

Australian Listed Company Directorships held in the past three years:

Southern Cross Electrical Engineering Limited – Chairman and Non-Executive Director
Commenced – 30 October 2007 (ongoing)
Flinders Mines Limited – Non-Executive Director
Commenced – 13 September 2010 (ongoing)
NRW Holdings Limited – Non-Executive Director
Commenced – 29 March 2011 (ongoing)
Neptune Marine Services Ltd – Non-Executive Director
Commenced – 4 April 2012 (ongoing)
Clough Limited (24 August 2006 – 31 January 2010)

Directors' Report (continued)

A J P Staines

Experience:

Ms Staines has extensive corporate, financial and commercial experience and advisory experience in governance, strategy and risk management. She is a Director of Goodstart Early Learning, North Queensland Airports and Allconnex Water. Former Directorships include the Australian Rail Track Corporation, Gladstone Ports Corporation and Early Learning Services (now G8).

Ms Staines is a former Chief Executive Officer of Australian Airlines, a Qantas subsidiary she co-launched in 2002 as a member of the carrier's 12 person senior team. She previously held various financial, strategy and economic roles at Qantas. Prior to this, she held various financial roles at American Airlines' headquarters in Dallas. Ms Staines is a Member of CEW (Chief Executive Women).

Qualifications:

BEcon, MBA, FAICD

Special Responsibilities:

Chairman of QR Network Pty Ltd
Member of Audit & Risk Management Committee

Australian Listed Company Directorships held in the past three years:

G8 Education Limited (12 May 2009 – 27 May 2010)

G T Tilbrook

Experience:

Mr Tilbrook has broad experience in corporate strategy, investment and finance. He joined Wesfarmers in 1985 and was an Executive Director from 2002 to 2009. Between 2000 and 2006, when Wesfarmers was a joint owner of the Australian Railroad Group (ARG), he was a Director of ARG and Chairman of Westnet Rail. Mr Tilbrook is Chairman of Transpacific Industries and a Director of Fletcher Building, GPT Group, the Perth International Arts Festival, the Bell Shakespeare Company and the Committee for Perth. He is also a Councillor of Curtin University and the Australian Institute of Company Directors WA.

Qualifications:

BSc, MBA

Special Responsibilities:

Chairman of Audit & Risk Management Committee
Member of Governance & Nomination Committee

Australian Listed Company Directorships held in the past three years:

GPT Group Limited – Non-Executive Director
Commenced – 11 May 2010 (ongoing)
Fletcher Building Limited – Non-Executive Director
Commenced – 1 September 2009 (ongoing)
Transpacific Industries Group Ltd – Non-Executive Chairman
Commenced – 3 September 2009 (ongoing)

Company Secretary

Mr D D Smith, BA, LLB, LLM, DipLegS, FCSA, FCIS, FAICD, was appointed Company Secretary of the QR Limited Group in May 2010 and to QR National Limited upon its incorporation on 14 September 2010.

Mr Smith has over 18 years' company secretariat, governance, corporate legal and senior management experience in ASX-listed companies. Mr Smith holds a Masters of Laws degree from the University of Sydney and is a Fellow of both the Chartered Secretaries Australia and the Australian Institute of Company Directors.

Principal Activities

The principal activities of entities within the Group, during the year, were:

- Integrated heavy haul freight railway operator
- Rail transporter of coal from mine to port for export markets
- Bulk, general and containerised freight businesses
- Large scale rail services activities.

Coal

Transport of coal from mines in Queensland and New South Wales to end customers and ports.

Freight

Transport of bulk mineral commodities (including iron ore), agricultural products, mining and industrial inputs and general freight throughout Queensland and Western Australia, and containerised freight throughout Australia.

Network Services

Provision of access to, and operation and management of, the Queensland coal network.

Provision of design, construction, overhaul, maintenance and management services to the Group as well as external customers.

Review of Operations

A review of the Group's operations for the financial year and the results of those operations, are contained in the Chairman's Report, the MD & CEO's Report, and the Year in Review as set out on pages 4 to 11 of this report.

Dividends

An unfranked final dividend of 3.7 cents per fully paid ordinary share was paid on 30 September 2011 and an unfranked interim dividend of 3.7 cents per fully paid ordinary share was paid on 30 April 2012. Further details of dividends provided for or paid are set out in note 26 to the consolidated financial statements.

Since the end of the financial year the Directors have declared to pay a final dividend of 4.6 cents per fully paid ordinary share. The dividend will not be franked and is payable on 28 September 2012.

State of Affairs

During the year the Company implemented a functional organisational structure which aligns with global best practice. The new structure aligns operational focus and customer service.

In the opinion of the Directors there were no other significant changes in the state of affairs of the Company that occurred during the financial year under review.

Events Since the End of the Financial Year

On 23 August 2012 QR National Limited, after considering cash forecasts and current balance sheet, announced to the ASX an on market program to buy-back up to 10% of its issued share capital (244 million shares).

The Group announced a voluntary redundancy program on 5 June 2012. As at the date of this document, the Group determined to accept approximately 750 voluntary redundancy applications. Further information is set out in Note 39 on page 91.

The Directors are not aware of any events or developments which are not set out in this report that have or would have a significant effect on the Group's state of affairs, its operations or its expected results in future years.

Likely Developments

Information about likely developments in the operations of the Group and the expected results of those operations are covered in the Chairman's Report, the MD & CEO's Report, and the Year in Review as set out on pages 4 to 11 of this report. In the opinion of the Directors, disclosure of any further information would be likely to result in unreasonable prejudice to the Group.

Environmental Regulation and Performance

QR National is committed to managing its operational activities and services in an environmentally responsible manner to meet legal, social and moral obligations. In order to deliver on this commitment QR National seeks to comply with all applicable environmental laws and regulations.

The EEO Act requires the Group to assess its energy usage including the identification, investigation and evaluation of energy-saving opportunities and to report publicly on the assessments undertaken, including what action the Group intends to take as a result. The Group continues to meet its obligations under the EEO Act.

The NGER Act requires the Group to report its annual greenhouse gas emissions and energy use. The Group has implemented systems and processes for the collection and calculation of the data required and is registered under the NGER Act.

Further details of the Company's Environmental Performance are set out on page 16 of the Annual Report.

Environmental Prosecutions

There have been no environmental prosecutions during this financial year.

Risk Management

The Company is committed to managing its risks in an integrated, systematic and practical manner. The overall objective of risk management is to assist the Company to achieve its objectives by appropriately considering both threats and opportunities and making informed decisions.

The Audit & Risk Management Committee oversees the process for identification and management of risk in the Company (see page 41 of this Annual Report). The Company's Risk Management Division is responsible for providing oversight of the risk management function and assurance on the management of significant risks to the Managing Director & CEO and the Board.

The Company's risk management framework, responsibilities and accountabilities are aligned with the Company's business model where the individual businesses are accountable for demonstrating they are managing their risks effectively and in accordance with the Board-approved risk management policy and framework.

The risk management framework has a strong focus on key organisational controls. A focus on the key organisational controls helps to shape the strategies, capabilities and culture of the organisation, identify and address vulnerabilities, strengthen the system of internal controls and build a more resilient organisation.

The Company also has a risk register with risk profiles populated at the various layers of the organisation, and a management specification that outlines the processes for the prevention, detection and management of fraud within the Company, and for fair dealing in matters pertaining to fraud.

Directors' Meetings

The number of Board meetings (including Board Committee meetings) and number of meetings attended by each of the Directors of the Company during the financial year are listed below:

DIRECTOR	QR NATIONAL		AUDIT & RISK MANAGEMENT		GOVERNANCE & NOMINATION		REMUNERATION & SUCCESSION		SAFETY & ENVIRONMENT	
	A	B	A	B	A	B	A	B	A	B
J B PRESCOTT AC	15[1]	15	-	-	5	5	6	6	4	4
L E HOCKRIDGE	15[1]	15	-	-	5	5	-	-	4	4
J ATKIN	15	15	-	-	5	5	-	-	-	-
R R CAPLAN	15	15	6	6	2	2[5]	3	3	-	-
G T JOHN AO	15	15	-	-	-	-	6	5	4	4
A J P STAINES	15	14	6	6	-	-	-	-	-	-
G T TILBROOK	15	15	6	6	5	5	-	-	-	-
K L FIELD	4	4[2]	1	1[2]	-	-	1	1	-	-
J D COOPER	4	4[3]	-	-	-	-	-	-	1	1
A J DAVIES	9	9[4]	-	-	-	-	3	3[4]	2	2[4]
P C KENNY	4	3[5]	-	-	-	-	-	-	1	1

A - Number of meetings held while appointed as a Director or Member of a Committee.
B - Number of meetings attended by the Director while appointed as a Director or Member of a Committee.
[1] In addition to the meetings above, a Committee of the Board comprising of Mr J B Prescott and Mr L E Hockridge met on three occasions.
[2] Mrs K L Field was appointed as an Independent Non-Executive Director on 19 April 2012.
[3] Mr J D Cooper was appointed as an Independent Non-Executive Director on 19 April 2012.
[4] Mr A J Davies resigned on 13 December 2011.
[5] Mr P C Kenny passed away on 8 October 2011.
[6] Mr R R Caplan resigned from the Governance and Nomination Committee on 26 October 2011.

During the year, the QR Network Pty Ltd Board met on six occassions.

Directors' Interests

DIRECTOR	NUMBER OF ORDINARY SHARES	DIRECTOR	NUMBER OF ORDINARY SHARES
J B PRESCOTT AC	215,434	A J P STAINES	5,223
L E HOCKRIDGE	538,763	G T TILBROOK	31,112
J ATKIN	20,908	K L FIELD	0
R R CAPLAN	82,132	J D COOPER	12,000
G T JOHN AO	57,132		

Directors' interests are as at 30 June 2012.
The performance rights of Directors are set out in Section 6.1 of the Remuneration Report.

Directors' Report (continued)

Non-Audit Services

During the year the Company's auditor (PwC) performed other services in addition to its audit responsibilities. The Directors are satisfied that the provision of non-audit services by PwC during the reporting period did not compromise the auditor independence requirements set out in the Corporations Act.

All non-audit services were subject to the Company's Non-Audit Services Policy and do not undermine the general principles relating to auditor independence set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, or jointly sharing risks and rewards.

No officer of the Company was a former Partner or Director of PwC and a copy of the auditor's independence declaration as required under the Corporations Act 2001 is set out in, and forms part of, this Directors' Report.

Details of the amounts paid to the auditor of the Company and its related practices for non-audit services provided throughout the year are as set out below:

	2012 $'000
Other assurance services	
PwC Australian firm:	
Audit of regulatory returns	230.0
Other assurance services	79.0
Total remuneration for other assurance services	309.0
Taxation services	
PwC Australian firm:	
Tax compliance services	539.0
Total remuneration for taxation services	539.0
Other services	
PwC Australian firm:	
Advisory services	1,619.0
Total remuneration for other services	1,619.0

CEO and CFO Declaration

The Managing Director & CEO and Chief Financial Officer (CFO) have provided a written statement to the Board in accordance with section 295A of the Corporations Act.

With regard to the financial records and systems of risk management and internal compliance in this written statement, the Board received assurance from the Managing Director & CEO and CFO that the declaration was founded on a sound system of risk management and internal control and that the system was operating effectively in all material aspects in relation to the reporting of financial risks.

Indemnification and Insurance of Officers

The Company's Constitution provides that it may indemnify any person who is, or has been, an officer of the Group, including the Directors, the Secretaries and other Executive Officers, against liabilities incurred whilst acting as such officers to the extent permitted by law. The Company has entered into a Deed of Access, Indemnity and Insurance with each of the Company's Directors. No Director or officer of the Company has received benefits under an indemnity from the Company during or since the end of the year.

The Company has paid a premium for insurance for officers of the Group. This insurance is against a liability for costs and expenses incurred by officers in defending civil or criminal proceedings involving them as such officers, with some exceptions. The contract of insurance prohibits disclosure of the nature of the liability insured against and the amount of the premium paid.

Proceedings Against the Company

The Directors are not aware of any current or threatened civil litigation proceedings, arbitration proceedings, administration appeals, or criminal or governmental prosecutions of a material nature in which QR National is directly or indirectly concerned which are likely to have a material adverse effect on the business or financial position of the Company.

Remuneration Report

The Remuneration Report is set out on pages 24 to 38 and forms part of the Directors' Report for the financial year ended 30 June 2012.

Rounding of Amounts

The Group is within the class specified in ASIC Class Order 98/100 dated 10 July 1998 relating to the "rounding off" of amounts in the Directors' Report and the Financial Report. Amounts in the Directors' Report and Financial Report have been rounded off to the nearest hundred thousand dollars, in accordance with ASIC Class Order 98/100, except where stated otherwise.

Auditor's Independence Declaration

A copy of the auditor's independence declaration, as required under section 307C of the Corporations Act, is set out on page 23.

The Directors' Report is made in accordance with a resolution of the Directors of the Company.

John B Prescott AC
Chairman

23 August 2012

pwc

Auditor's Independence Declaration

As lead auditor for the audit of QR National Limited for the full year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of QR National Limited and the entities it controlled during the period.

Robert Hubbard
Partner
PricewaterhouseCoopers

Brisbane
23 August 2012

PricewaterhouseCoopers, ABN 52 780 433 757
Riverside Centre, 123 Eagle Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001
T: +61 7 3257 5000, F: +61 7 3257 5999, www.pwc.com.au

Directors' Report (continued)

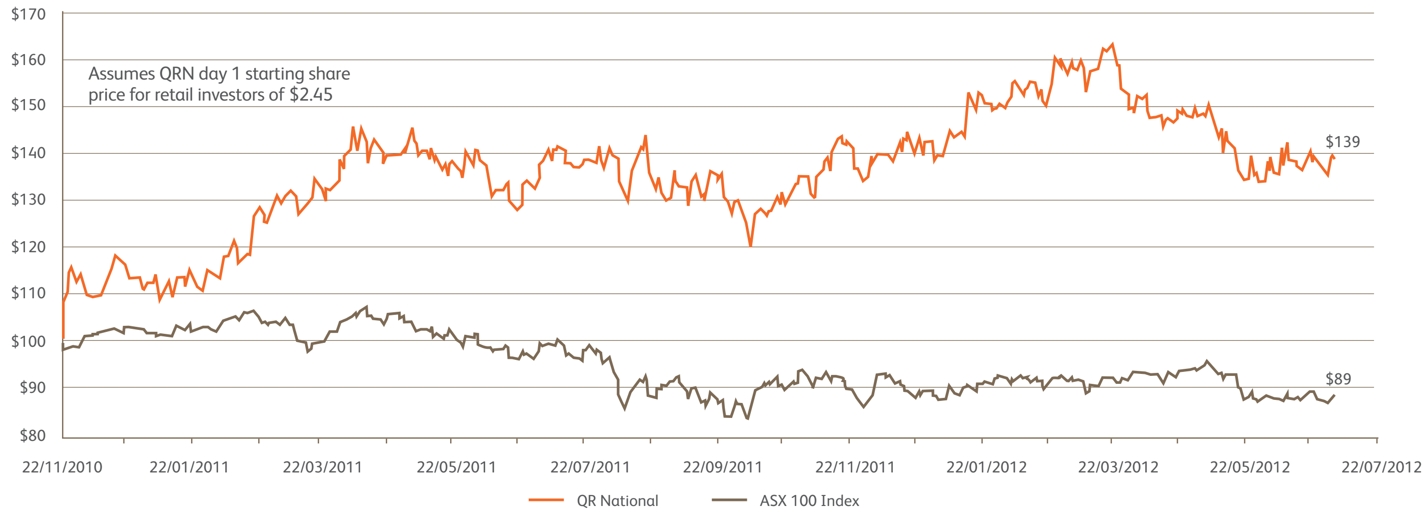
Remuneration Report

The Directors of QR National Limited present the Remuneration Report prepared in accordance with section 300A of the *Corporations Act 2001* for the year ended 30 June 2012. The information provided in this Remuneration Report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

Table of Contents

1. Remuneration snapshot

The QR National remuneration strategy seeks to encourage high performance over the short, medium and longer terms by using several distinct reward plans. One of the indicators of the performance of QR National is the share price appreciation since Initial Public Offer (IPO). The graph below shows the QRN share price and the ASX100 index value over the period from 22 November 2010 to 30 June 2012. The graph assumes that a shareholder starts with an initial investment of $100 in QR National and the ASX100 index, and shows the change in the value of that investment, based on changes in share price/index value over the period. For QR National, the graph assumes a starting price of $2.45 – the share price offered to retail investors on the date of listing.



The following Table 1 summarises how each of the remuneration components works:

Table 1 – Remuneration components

Remuneration component	Summary	Sections
Fixed remuneration	Fixed remuneration, which comprises base salary, superannuation benefits and other benefits, is determined with reference to the applicable market range assessed by collecting and collating market data for comparable roles in similarly sized companies operating in similar market sectors. An individual's position within the range and the value of any annual increase in fixed remuneration is determined with reference to market movements and the individual's experience, competence level, qualifications, etc. Performance outcomes are rewarded through the various incentive programs (see below). For the 2012 fixed remuneration review for all non-award employees, QR National has applied an overall increase of less than 4.3 % across the enterprise.	6.1.2
Short-term Incentive Awards ("STIA")	A STIA plan was introduced at the time of the Initial Public Offer ("IPO") which provides the possibility of cash awards at the absolute discretion of the Board, having regard to QR National and individual key performance indicators ("KPIs"). The QR National KPIs specify minimum target and stretch performance expectations in relation to EBIT, Safety, and Transformation. The individual KPIs specify minimum target and stretch performance expectations which relate to that particular position. For 2013 and subsequent years an additional QR National KPI will be required to be achieved – Return on Invested Capital (ROIC). The EBIT, Transformation, Safety and ROIC targets for 2013 have been set considerably higher than prior year actual results and prior year targets. For each individual a target STIA percentage (of fixed remuneration) is specified in the employment agreement. All employees at the same level will have the same target STIA percentage. For the Key Management Personnel (KMP) and the MD & CEO the target STIA percentage during 2012 was 50 % and 75 % of fixed remuneration respectively. For 2013 and subsequent years this target will be set at 75 % and 100 % of fixed remuneration respectively. In the event that QR National and individual performance outcomes are all below the minimum expectation no STIA will be awarded. In the event that QR National and individual performance outcomes are between minimum and target, the individual can expect an incentive payment somewhere between zero and the target STIA percentage. In the event that QR National and individual target performance outcomes are achieved the individual can expect an incentive payment at the target STIA percentage. In the event that QR National and individual stretch performance outcomes are achieved the individual can expect an incentive payment close to the maximum, which is 1½ times the target STIA percentage for all plan participants. The maximum STIA for KMP during 2012 was, therefore, 75 % of fixed remuneration. The maximum for the MD & CEO was 100 %.	6.1.3
Deferred Short-term Incentive Awards ("STIAD")	Being a recently listed public company QR National did not have prior year Long-term Incentive Awards to assist with retention of executives. In order to mitigate this risk to some degree the Remuneration and Succession Committee (the "Committee") recommended the implementation of a deferred STIA arrangement for the first two years after listing. Under this deferred component, two tranches of rights to QR National shares will be granted to executives in the event that they are awarded an STIA in 2011 and 2012. The number of performance rights an executive was awarded was 50 % of the STIA outcome in 2011 and 2012 divided by the share price at that time (Volume Weighted Average Price "VWAP" five days prior to the award). The award made in 2012 will be the final award under the plan.	6.1.3.3
Long-term Incentive Awards ("LTIA")	Participation in the QR National LTIA plan awards senior executives with rights to QR National shares which will only vest in the event that performance hurdles are achieved. There were two performance hurdles for the IPO and 2011 awards – Total Shareholder Return ("TSR") relative to a peer group and Earnings Per Share ("EPS") growth. In the initial years after IPO the EPS growth targets have been substituted with the Offer Document earnings targets. These arrangements were described on page 132 of the Offer Document. For the award made at the time of the IPO the level of performance required for 100 % vesting of the performance rights is the top quartile TSR performance amongst the peer group PLUS the aggregate earnings predicted in the Offer Document for 2011 and 2012 PLUS EPS growth of 10 % between 2012 and 2013. For the award made in September 2011 the level of performance below which no rights will vest is TSR performance below the median of the peer group AND either failure to achieve the aggregate earnings predicted in the Offer Document or failure to achieve EPS growth of at least 7.5 % between 2012 and 2013. For the 2012 and subsequent awards an additional hurdle has been introduced – operating ratio. At the time of the IPO the operating ratio was 94 %. The Managing Director & CEO has publicly committed the Company to the achievement of 75 % within five years of the IPO. The operating ratio performance hurdle under the LTIA requires that the Company meets that target in that time frame. As at the end of 2012, the Company's operating ratio had reduced to 84 %.	6.1.4

Directors' Report (continued)

Remuneration Report

2. Remuneration framework

The primary purpose of the QR National remuneration framework is the delivery of superior shareholder returns. The guiding principles which underpin the remuneration framework are shareholder alignment, performance improvement and market competitiveness:

- **Alignment with shareholder interests** – the determination of incentive outcomes depends on the achievement of performance hurdles which, if achieved, will add shareholder value.
- **Performance improvement** – QR National's remuneration, performance improvement and performance management programs are closely integrated to ensure that QR National, and individual performance continually improve. In this way, superior performance is rewarded and differentiated from performance which is only adequate or inferior. The performance indictors are derived from the business strategy and targets. In addition, all participants in the incentive plans are rewarded only in the event that the QR National values and behaviours are consistently demonstrated.
- **Market competitiveness** – the quantum and structure of remuneration is determined with reference to competitive market practices evident at similarly sized companies in similar industry sectors. In order to secure talent in the industry sectors with whom we compete, we have found that we sometimes need to offer remuneration above median.

QR National's remuneration strategy is to:

- support and reinforce the entire suite of performance improvement apparatus at the disposal of management
- support, reinforce and enhance the achievement of QR National's operational, tactical and strategic objectives
- assist, as part of the wider employee value proposition, with the attraction and retention of key employees, particularly in circumstances where there is a scarcity of talent and/or required skills in the marketplace
- assist management in their efforts to communicate complex strategies, tactics and performance objectives to employees
- actively encourage performance improvement at all levels – QR National-wide, within each team and for each individual.

In summary, the objective of QR National's executive reward framework is to ensure reward for performance is both competitive and appropriate, particularly when considering remuneration outcomes in the light of the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and has been designed having considered market practices in terms of both quantum and structure.

3. Key Management Personnel

The Key Management Personnel ("KMP") of the Group (which is a defined term under the Australian Accounting Standards and includes Directors) comprise all of the Directors of QR National Limited and those executives who have the authority and responsibility for planning, directing and controlling the activities of QR National. The executives that form part of KMP ("KMP Executives") have been determined to be those members of the Executive Leadership Team that report directly to the Managing Director & Chief Executive Officer ("MD & CEO"). The KMP of QR National for the whole of the financial year ended 30 June 2012 (unless otherwise indicated) were:

Name	Position
Executive	
Lance Hockridge	Managing Director and Chief Executive Officer
Deborah O'Toole	Executive Vice President and Chief Financial Officer
Lindsay Cooper	Executive Vice President Operations (Acting)
Ken Lewsey	Executive Vice President Strategy and Business Development
Michael Carter	Executive Vice President Network
Greg Pringle	Executive Vice President Enterprise Services
John Stephens	Executive Vice President Human Resources
Greg Robinson	Executive Vice President Business Sustainability (appointed 1 December 2011)
Paul Scurrah	Executive Vice President Marketing (appointed 1 January 2012)
Marcus McAuliffe	Executive Vice President and CEO Coal (ceased employment 30 June 2012)
Curtis Davies	Executive Vice President and CEO Coal Customers (ceased employment 25 May 2012)

Apart from Paul Scurrah and Greg Robinson, who were appointed during the year, each of these individuals were also a KMP for the whole of the previous financial year (except for Curtis Davies, who was appointed on 16 August 2010).

Name	Position
Non-Executive Directors	
John B Prescott AC	Independent Non-Executive Chairman
John Atkin	Independent Non-Executive Director
Russell Caplan	Independent Non-Executive Director
Allan Davies	Independent Non-Executive Director (resigned on 13 December 2011)
Graeme John AO	Independent Non-Executive Director
Peter Kenny (deceased)	Independent Non-Executive Director (passed away on 8 October 2011)
Andrea Staines	Independent Non-Executive Director
Gene Tilbrook	Independent Non-Executive Director
John Cooper	Independent Non-Executive Director (appointed 19 April 2012)
Karen Field	Independent Non-Executive Director (appointed 19 April 2012)

4. Actual remuneration outcomes

The cash remuneration actually received by the MD & CEO and the other senior executives in respect of the year ended 30 June 2012 is shown in table 2 below. The remuneration details, prepared in accordance with the accounting standards, are included in table 11.

Table 2 – Remuneration outcomes

Name	Fixed pay (including superannuation) $'000	Short-term Incentive $'000	Termination Benefits $'000	Total $'000
L E Hockridge	1,701	1,539	-	3,240
D M O'Toole	771	450	-	1,221
K R Lewsey	683	400	-	1,083
M G Carter	631	375	-	1,006
G P Pringle	578	345	-	923
R J Stephens	578	345	-	923
L J Cooper	560	340	-	900
G Robinson [1]	626	340	-	966
P Scurrah [1]	398	400	-	798
M P McAuliffe [2]	701	-	556	1,257
C M Davies [2]	705	-	615	1,320
Total Executive remuneration	**7,932**	**4,534**	**1,171**	**13,637**

[1] Mr Robinson was appointed on 1 December 2011 and Mr Scurrah was appointed on 1 January 2012.
[2] Mr Davies ceased employment on 25 May 2012 and Mr McAuliffe ceased employment on 30 June 2012.

5. Remuneration governance

The Board takes an active role in the governance and oversight of QR National's remuneration policies and practices. The Remuneration and Succession Committee (details of which are set out on pages 21 and 41 of the Annual Report) ("the Committee") assists the Board in relation to QR National's remuneration framework. Specifically, the Committee seeks to ensure that QR National strikes a balance between the ability to compete for scarce talent in an increasingly competitive market and the need to ensure that remuneration arrangements are reasonable, appropriate, clear and understandable. In addition, the Committee undertakes functions delegated to it by the Board including consideration and approval of the annual remuneration program and all aspects of the long and short-term incentive plans. The Committee's Terms of Reference is available on the website (www.qrnational.com.au).

The Committee is independent of management and obtains advice from independent experts as necessary. The use of external specialists in relation to the remuneration of the KMP is initiated directly by the Committee and/or the Board and these specialists are directly engaged by the Committee Chairman where advice and recommendations about the KMP is provided. The Committee is satisfied that advice received was free from any undue influence by KMP to whom advice may relate, because strict protocols were observed and complied with regarding any interaction between each organisation and management, and because all remuneration advice was provided to the Committee Chairman.

During the year ended 30 June 2012 the Committee received advice from the following independent organisations:

Table 3 – External remuneration advice

Organisation	Purpose	Role
Egan Associates	Remuneration benchmarking and remuneration plan structure and operation to assist with the determination of fixed pay for KMP, the remuneration components, the quantum of each, and the mix between these components and was paid $74,400 for these services.	KMP advice and recommendations
KPMG	Remuneration benchmarking and remuneration plan structure and operation to assist with the determination of fixed pay for KMP, the remuneration components, the quantum of each, and the mix between these components and was paid $68,200 for these services.	KMP advice and recommendations
Tower Watson	Relative TSR calculations and peer group definition and was paid $21,600 for these services.	Calculations and plan operations
Deloitte	LTIA and STIAD valuation and was paid $22,850 for these services.	Calculations and plan operations
Ernst & Young	Ad-hoc benchmarking and KMP remuneration advice and was paid $42,500 for these services.	KMP advice and recommendations
PwC	Advice on taxation and benchmarking information.	Tax advice and implications and general review

Further discussion of the Committee's involvement in determining the amount and nature of remuneration is included in the respective remuneration sections.

Voting and comments made at the company's 2011 Annual General Meeting

QR National received more than 96 % of "For" votes on its remuneration report for the 2011 financial year. Feedback received during the year from shareholders and shareholders' representatives has been positive.

Directors' Report (continued)

Remuneration Report

6. Remuneration components

The remuneration framework provides a mix of fixed and variable pay, and a blend of short and long-term incentives.

6.1 Executives

During 2012, the executive remuneration and reward framework had four components:

- fixed remuneration
- STIAD
- STIA
- LTIA.

The combination of these components comprises an executive's total remuneration. As of the end of 2012 no further awards will be made under the STIAD and the plan has terminated.

6.1.1 Mix of remuneration components

The mix of remuneration components for the MD & CEO and the KMP Executives (assuming achievement of the 'at target' outcomes for STIA and STIAD and assuming the LTIA vested at a value equal to the original award) are set out in the following diagram.

Mix of Remuneration Components (at Target STIA)

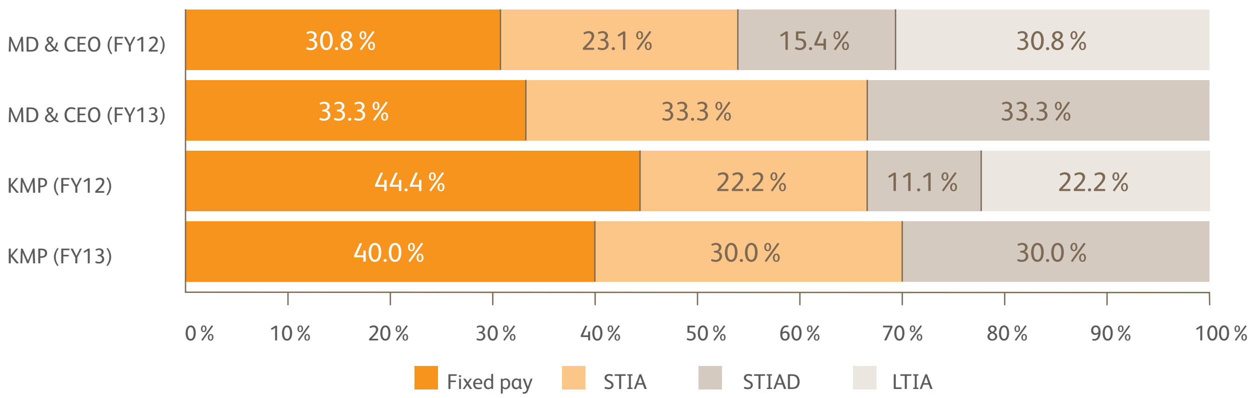


Table 4 summarises the nature of each remuneration component, the manner in which each piece is determined, and the link that each piece has to performance.

Table 4 – Remuneration Components

Remuneration component	Description	Determination	Link to performance
Fixed remuneration	Comprises base salary, superannuation benefits and other benefits.	Fixed remuneration is determined with reference to a market range for the particular role based on comparable roles in similarly sized companies operating in similar market sectors. An individual's position within the range and the value of any annual increase in fixed remuneration will be determined with reference to market movements and to a number of other factors including the individual's experience, competence level and qualifications.	Performance will be considered at the time of the annual remuneration review, when annual increases in fixed pay are determined.
STIA	Annual 'bonus' component. Paid in cash subject to meeting and/or exceeding performance targets set in relation to KPIs.	Performance is assessed with reference to pre-determined targets set in relation to specified KPIs for QR National and for the individual.	Directly linked to performance, STIA awards are completely 'at risk'.
STIAD	Medium-term share-based component intended to mitigate the attraction and retention risk associated with the unavailability of prior year LTI.	50 % of the actual annual STIA bonus for 2011 and 2012.	The number of rights is directly related to performance by virtue of the value being 50 % of the STIA awarded.
LTIA	Long-term share-based component, with vesting of shares assessed three years after an award of performance rights.	Only those senior employees whose daily activities and decisions impact the long-term outcomes of QR National are eligible to participate. Generally, this group includes the MD & CEO, the KMP Executives and their direct reports (less than 1 % of the full-time workforce). The number of performance rights awarded and, hence, the maximum number of shares that might eventually vest, is determined by a percentage of fixed remuneration divided by the share price (VWAP) at the time of the award. The percentage of fixed pay is, in turn, assessed with reference to market practices and is the same for all participants at the same level (for 2013 and subsequent years, 75 % for KMP and 100 % for the MD & CEO).	Vesting depends on QR National's TSR performance relative to a peer group and EPS growth. In the initial years after IPO, the EPS growth targets have been substituted with the Offer Document earnings targets. These arrangements are described on page 132 of the Offer Document. The award offered in September 2012 and all future awards will also include a performance hurdle requiring a reduction in QR National operating ratio.

6.1.2 Fixed remuneration / Base salary and benefits

Executives are offered a competitive base salary that comprises the fixed component of pay and rewards. The Committee reviews the remuneration and other terms of employment of executives, having regard to performance against goals set at the start of the year, relevant comparative information and independent expert advice. In setting remuneration, regard is given to performance, market conditions and QR National's desired market positioning. Advice is taken from independent external professional advisers to determine the remuneration range evident in the marketplace and the individual is paid within that range. A fully competent individual can expect to be paid close to the middle of the market range, while an individual growing into a role can expect to be paid towards the bottom of the market range until they are able to demonstrate full competency. An individual who consistently exceeds the requirements of the role by virtue of their experience, qualifications, performance and marketability may well be paid towards the top of the market range.

Fixed remuneration for executives is reviewed annually through a process which considers market-based increases generally, market movements in specific industry sectors and professional disciplines, and perhaps market movements in relation to specific roles. There are no guaranteed fixed remuneration increases included in any executive's contracts, although there is a contractual commitment to review fixed remuneration on an annual basis. The fixed remuneration amount is used as the basis for calculating variable pay, if any.

6.1.3 Short-term incentive

QR National operates an annual STIA plan which applies equally (other than the target award amount) to all non-enterprise agreement employees and is the same plan used to reward KMP Executives. The STIA awards a cash bonus subject to the achievement of pre-defined QR National-wide and individual targets set by the Committee in relation to certain KPIs.

6.1.3.1 STIA operation

Notwithstanding anything that follows, the Board has absolute discretion as to whether a STIA is awarded and, if so, to what extent. This absolute discretion is cited in the contract of employment of each KMP Executive. For each individual, a target STIA percentage (of fixed remuneration) is specified in the employment agreement. All employees at the same level will have the same target STIA percentage. For the KMP Executives for 2012, the target STIA percentage is 50% of fixed remuneration and the maximum is 75%. For the MD & CEO the target percentage is 75% of fixed remuneration and the maximum is 100%.

The Committee commissioned two separate independent studies during 2012. Both studies confirmed that these target percentages were below market and exposed the company to potential retention risk. For 2013 and beyond, these target percentages have been adjusted accordingly.

In the event that QR National and individual performance outcomes are all below the minimum expectation, no STIA will be awarded.

In the event that QR National and individual performance outcomes are between minimum and target, the individual can expect an incentive payment somewhere between zero and the target STIA percentage

In the event that QR National and individual target performance outcomes are achieved the individual can expect an incentive payment at the target STIA percentage.

In the event that QR National and individual stretch performance outcomes are achieved the individual can expect an incentive payment close to the maximum STIA percentage.

6.1.3.2 STIA performance targets and measurement

The Board can vary the KPIs, the targets set in relation to them and their relative importance from year to year depending on the strategic imperative and the desired performance message. For 2013, the primary KPIs common to all participants are EBIT, Safety, Transformation and Return on Invested Capital (ROIC) and their relative importance was assessed by the Board for each KMP Executive. These four primary indicators of performance were chosen because they captured the need to continuously improve safety across all aspects of the business, the need to quickly change from a statutory government owned organisation to a world-class, profitable listed company and, at the same time, deliver benefits to shareholders.

The performance expectations for these KPIs for 2012 are set out below.

EBIT

Minimum, target and stretch achievement levels are set for QR National. The minimum performance level below which no EBIT component STIA would be payable is a 'Threshold' EBIT outcome. 'Threshold' is set above previous year actual but below budget EBIT. As an example, the 2013 Threshold EBIT level is 14% above the 2012 outcome disclosed in this Annual Report. The target is approximately equivalent to the EBIT level that QR National considered to have a 75% chance of achievement under favourable market and environmental conditions. The stretch EBIT level is much higher than the target level and the likelihood of attainment, although assessed by the Board as being achievable, would be considered remote even under favourable conditions.

Safety

The minimum safety performance level below which no safety component STIA would be payable is a consistent reduction in LTIFRs, MTIs (Medically Treated Injuries) and a consistent frequency of safety interactions. That is, it is not sufficient to maintain the number of LTIFRs and MTIs; it is a minimum requirement that the number of hours lost to injury and the number of injuries be reduced. The target level of achievement is a more significant reduction in LTIFRs and MTIs and an even higher frequency of safety interactions. The stretch performance level is the achievement of what would be considered a world-class reduction in LTIFRs and MTIs and an optimal frequency of safety interactions.

Transformation

The Board recognised the strategic imperative that QR National be transformed very quickly after the IPO from the characteristics typical of a long-standing public sector organisation to an efficient, profitable, listed market leader. To do this, a number of specific change programs were identified and allocated to specific KMP Executives. Minimum, target and stretch levels of achievement were identified in relation to each transformation project and in relation to transformation overall. Performance was defined in terms of project and program completion (or milestone achievement), benefits delivery (or progression towards delivery for lengthy transformational projects) and sustainable capability improvement. The Board then assessed the level of achievement in relation to each transformation project, having regard to pre-determined levels of expected achievement.

ROIC (To form part of KPIs in 2013 and subsequent years):

To meet the long term strategy, QR National needs to invest heavily in infrastructure, process improvement, systems and capacity. The ROIC performance measure is intended to ensure that there is alignment between these investment decisions and shareholder expectations that the return on these investments is superior.

6.1.3.3 STIAD – Deferred Short-term Incentive Award

As a recently listed public company, QR National did not have prior year LTIA awards to assist with retention of executives. In order to mitigate this risk to some degree, the Board implemented a deferred STIA arrangement for the first two years after listing. Under this deferred component of STIA, two tranches of rights were granted to executives in the event they were awarded an STIA in 2011 and 2012. The number of performance rights an executive was awarded was dependent on the STIA outcome in 2011 and 2012. By that time, the LTIA plan (see below) will have begun to vest (or not, as the case may be) and no further awards will be made under the STIAD.

Directors' Report (continued)

Remuneration Report

6.1.3.3 STIAD – Deferred Short-term Incentive Award (continued)

Executives will be granted an award of performance rights equivalent to 50 % of the STIA they receive in the relevant year of award as follows:

- Tranche 1 was awarded in September 2011 with one half of these performance rights vesting and becoming fully-paid shares in September 2012 and the other half vesting in September 2013
- Tranche 2 will be awarded in September 2012 with one half of these vesting in September 2013 and the other half vesting in September 2014.

Both tranches will only vest and become exercisable if the executive remains employed by QR National as at the vesting date. If the executive ceases employment with QR National prior to the vesting of the rights the rights will lapse unless otherwise determined by the Board.

Performance rights are granted by the Company for nil consideration. Each performance right is a right to receive one fully-paid ordinary share in QR National Limited at no cost if the vesting conditions are satisfied. Performance rights do not carry voting or dividend rights, however shares allocated upon vesting of rights will carry the same rights as other ordinary shares. For further information regarding the terms and conditions of rights, refer to note 37 of the Financial Report.

The deferred component of STIA to which the MD & CEO was entitled (and described in the offer document and in last year's Annual Report) has vested. This plan has now terminated.

6.1.4 Long-term incentive

Performance rights have been granted to certain employees, including KMP Executives and the MD & CEO, under the LTIA. Each performance right is a right to receive one fully paid ordinary share in QR National Limited at no cost if the vesting conditions are satisfied. The LTIA is designed to provide long-term incentives for executives to deliver long-term shareholder returns. Under the plan, performance rights will only vest on the satisfaction of the relevant performance hurdle that is measured by reference to the three years following the award (performance period) or a re-testing, which will occur one year thereafter. Participation in the plan is at the Board's discretion and no individual has a contractual right to be awarded performance rights or to receive any guaranteed benefits.

6.1.4.1 LTIA eligibility

Eligibility to participate in the LTIA is at the absolute discretion of the Board. In exercising that discretion, the Board will seek to identify those executive and management employees who occupy roles of which the daily activities, decisions and responsibilities are likely to impact the long-term prosperity of QR National. During the first round of awards, at the time of the IPO, this group included the MD & CEO, KMP Executives, the direct reports to KMP Executives and a small number of other management employees nominated by the MD & CEO and approved by the Board. It is intended that performance rights will be awarded each year, although this, too, is at the absolute discretion of the Board. The awarding of performance rights to an individual in one year does not necessarily create an entitlement to an award in any subsequent year.

6.1.4.2 Number of performance rights

The number of performance rights awarded at the time of the IPO and, hence, the maximum number of shares that might eventually vest, was determined by a percentage of fixed remuneration divided by the institutional share price on the day of listing ($2.55).

The number of performance rights awarded in September 2011, the maximum number of shares that might eventually vest, was determined by a percentage of fixed remuneration divided by a five day volume weighted average price (15 – 19 Aug 2011, $3.44).

The percentage of fixed pay was, in turn, assessed with reference to market practices and was the same for all participants at the same level (50 % of fixed pay for KMP). The resulting number of performance rights is the maximum number of shares that can vest in the event that all of the performance hurdles are met or exceeded. For the MD & CEO, the number of performance rights awarded was calculated on the same basis, except that the percentage of fixed remuneration was 100 %. The Committee commissioned two separate independent studies during 2012. Both studies confirmed that these percentages were below market and exposed the company to potential retention risk. For 2013 and beyond, these target percentages have been adjusted accordingly (75 % for KMP. The percentage remains unchanged for the MD & CEO).

6.1.4.3 Performance period

The performance hurdles (below) will be measured over a three year period. In the event that the performance hurdle is not achieved, the Board has the discretion to extend the performance period for a further year.

6.1.4.4 Performance hurdles

The rights granted are subject to two performance hurdles – the Earnings hurdle, which determines whether and to what extent half of the award will vest, and the relative TSR hurdle, which will determine whether and to what extent the other half will vest. The rights granted in 2012 will be subject to a third performance hurdle – operating ratio. At the time of the IPO the operating ratio was 94 %. The MD & CEO has publicly committed the company to the achievement of 75 % within five years of the IPO. The operating ratio performance hurdle under the LTIA requires that the company meets that target in that time frame. As at the end of 2012, the operating ratio had reduced to 84 %.

The Earnings hurdle

Prior to the floods and cyclone in the previous financial year, half of the performance rights would have vested in full if the aggregate EBIT forecasts in the IPO Offer Document for the periods 2011 and 2012 were achieved and EPS growth between 2012 and 2013 is at least 10 %. No vesting of this half of the award would have occurred if this initial target was not achieved. Having achieved the aggregate earnings in 2011 and 2012, an EPS growth of at least 7.5 % on the actual 2012 results for 2013 is required, otherwise no vesting of this half will occur. If the aggregate EBIT forecasts for 2011 and 2012 have been achieved, and in 2013, the EPS growth is:

- 10 % or above, 100 % of this component will vest
- from 7.5 % to 10 %, 50 % to 100 % of this half will vest, calculated on a pro rata basis
- below 7.5 %, no vesting of this component will occur in 2013.

Following the floods, the aggregate earnings test described above was adjusted to reflect the net impact of the floods and cyclone, as approved by shareholders at the 2011 Annual General Meeting.

These adjusted arrangements are outlined in the following table:

Table 5 – Earnings hurdle (2011 Grant)

Earnings hurdle outcome	Percentage of Earnings hurdle rights to vest
No achievement of the adjusted Aggregate 2011 and 2012 EBIT forecasts	0 %
Achievement of the adjusted Aggregate 2011 and 2012 EBIT forecasts PLUS less than 7.5 % EPS growth in 2013	0 %
Achievement of the adjusted aggregate 2011 and 2012 EBIT forecasts PLUS between 7.5 % and 10 % EPS growth in 2013	50 - 100 %
Achievement of the adjusted aggregate 2011 and 2012 EBIT forecasts PLUS more than 10 % EPS growth in 2013	100 %

For 2012 and subsequent awards, 0 % of this part of the award will vest if the average EPS growth is less than 7.5 %, 50 % - 100 % will vest if the average EPS growth is between 7.5 % and 10 %, while 100 % will vest if the average EPS growth is 10 % or more.

Relative TSR hurdle

The vesting of the remaining half of the performance rights is conditional on QR National's TSR performance relative to a peer group of companies. After taking independent advice the Board sought to construct a peer group comprising those companies with whom QR National was likely to compete for both capital and talent, as well as those few companies with whom QR National competes for business and customers. As a result, the peer group comprises the companies in the ASX Top 100 index, other than financial, medical, telecommunications, pharmaceutical, gaming and property trusts.

TSR measures the growth in the price of shares plus cash distributions notionally reinvested in shares. To determine whether and to what extent the TSR tested performance rights will vest, the TSR of QR National over the performance period will be compared to the TSR of all of the companies in the peer group which are still listed at the end of the performance period. Each of these comparator companies will be ranked from highest to lowest, based on their TSR over the performance period, and the number of rights that vest will depend on where QR National is ranked amongst these comparator companies. For the purpose of calculating the TSR measurement, the relevant share prices will be determined by reference to the volume weighted average share price over the 20 business days after the Grant Date and 20 business days before the end of the performance period.

If QR National's TSR is:

- between the 75th and 100th percentile of the peer group, 100 % of the Tranche 1 Rights will vest
- between the 51st and 74th percentile, 52 % to 98 % of the Tranche 1 Rights will vest (that is, for every 1 percentile additional ranking, the proportion of Tranche 1 Rights vesting will increase by 2 %)
- at the 50th percentile, 50 % of the Tranche 1 Rights will vest
- below the 50th percentile, no vesting of the Tranche 1 Rights will occur.

This is outlined in the following table:

Table 6 – TSR hurdle

Group's TSR performance compared to the relevant peer group	Percentage of TSR half of awarded rights that will vest
0 to 49th percentile	Nil
50th percentile	50 % of the Tranche 1 rights will vest
51st to 74th percentile	52 % - 98 % of the Tranche 1 rights will vest (on a straight line basis)
75th to 100th percentile	100 % of the Tranche 1 rights will vest

TSR performance is monitored by an independent expert at the end of each financial year.

Operating Ratio hurdle

For future awards (2013 and beyond), there will be a third hurdle, requiring that a three year operating ratio target be achieved in the third year. The specific hurdle for the 2012 award is that the operating ratio be reduced from its current level (84 %) to the target level of 75 % . 0 % of this third tranche of the LTIA will vest if the operating ratio in 2015 is more than 79.5 % . Between 50 % and 100 % will vest if the operating ratio in 2015 is between 79.5 % and 75 % , while 100 % of this third tranche will vest if the operating ratio in 2015 is 75 % or less.

Performance rights do not carry voting or dividend rights, however shares allocated upon vesting of rights will carry the same rights as other ordinary shares. For further information regarding the terms and conditions of rights in the LTIA, refer to note 37 of the Financial Report. The table in this note provides details of the rights awarded during the year.

6.1.5 Total remuneration

When all components of remuneration are taken together and the share-based awards are independently valued, the sum total is considered to be well within market parameters.

The Committee has received independent, external advice that the market relativity of total remuneration for KMP Executives, including the MD & CEO, is close to market median.

6.2 Non-Executive Directors

On appointment to the Board, all Non-Executive Directors enter into a Service Agreement with the Company, incorporated in a letter of appointment. The letter summarises the Board policies and terms, including compensation relevant to the office of Director.

Under QR National's Constitution, Non-Executive Directors are to be paid by way of fees for their services with an initial maximum aggregate cap of $2.5 million. The Directors Fee is a composite fee and covers all responsibilities of the respective member including Board and Committee duties. The Fee is also a total fee in that it covers both cash and any contributions to a fund for the purposes of superannuation benefits. Apart from superannuation, there are no other retirement benefits in place for Non-Executive Directors. The cap does not include remuneration for performing additional or special duties for the Company at the request of the Board. The Constitution also states that the Company will pay all reasonable travelling, accommodation and other expenses of directors in attending meetings and carrying out their duties.

Within the overall pool amount, remuneration for Non-Executive Directors is reviewed by the Committee, taking into account recommendations from an external expert, and set by the Board. Fees for Non-Executive Directors are set at a level to attract and retain Directors with the necessary skills and experience to allow the Board to have a proper understanding of, and competence to deal with, current and emerging issues for QR National. Fees and payments to Non-Executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Non-Executive Directors' fees and payments are reviewed annually by the Board. The Chairman's fees are determined independently to the fees of Non-Executive Directors, based on comparative roles in the external market. The Chairman is not present at any discussions relating to the determination of his own remuneration. Non-Executive Directors do not receive performance-based pay.

6.2.1 Directors' fees

The current annual base fees were last reviewed with effect from 1 July 2012, from $180,000 to $190,000 (inclusive of all responsibilities and superannuation) for other Non-Executive Directors and from $400,000 to $475,000 (inclusive of all responsibilities and superannuation) for the Chairman.

Directors' Report (continued)

Remuneration Report

6.3 MD & CEO remuneration and Service Agreement

The terms of Mr Hockridge's appointment were disclosed in the IPO Offer Document. The Board sought expert external advice from Egan Associates to ensure the remuneration arrangements offered to Mr Hockridge were both reasonable and sufficiently competitive to secure the services of an MD & CEO of a Top 50 Australian publicly listed company. A significant proportion of the total remuneration is subject to the achievement of QR National performance outcomes, in particular those relating to earnings, safety, transforming the business, and total shareholder returns.

The MD & CEO's total remuneration (assuming the achievement of performance hurdles over the next several years) is split between fixed and variable components as follows:

Table 7 – MD & CEO Remuneration Components (2012)

MD & CEO - Percentage of Total Remuneration									
	Fixed Remuneration		STIA		STIAD		LTIA		Total Received in 2012 (at Maximum)
	$	% of Total	$	% of Total	$	% of Total	$	% of Total	$
Received in 2012 (at Maximum STIA)	$1,700,000	33.3 %	$1,700,000	33.3 %					$3,400,000
Payable in later years subject to performance hurdles (at Target LTIA)					$850,000	16.7 %	$850,000	16.7 %	
Received in 2012 (at Maximum STIA)	$1,700,000	28.6 %	$1,700,000	28.6 %					$3,400,000
Payable in later years subject to performance hurdles (at Maximum LTIA)					$850,000	14.3 %	$1,700,000	28.6 %	

* Target LTI vesting refers to the satisfaction of threshold performance hurdles which generates vesting of 50 % of the performance rights awarded. Performance below this level would result in no rights vesting.

The fixed remuneration for the MD & CEO for 2013 has been set at $1,950,000.

Remuneration and other terms of employment for the MD & CEO, as with the other KMP Executives, is formalised in a Service Agreement.

Table 8 – Summary of MD & CEO's Service Agreement

Term	Service Agreement Summary
Duration	Ongoing, until notice given by either party.
Termination by the MD & CEO	6 months notice.
Termination by the Company	12 months notice. Termination payment of 12 months fixed pay. Treatment of unvested prior year STIA, STAID and LTIA Awards will be in accordance with the plan rules and Board-approved policies.
Post-employment restraints	12 months in any competitor business in Australia.

The MD & CEO is employed pursuant to an employment contract until terminated by either the MD & CEO or by QR National. He may terminate his employment contract by giving six months notice, and QR National may terminate his employment by giving 12 months notice. If his employment is terminated (other than for cause), he will be entitled to payment of his total fixed annual remuneration, calculated to the termination date, plus any leave entitlements, as well as any entitlements already owing or vested under the STIA, STIAD and LTIA. Whether payments are made in recognition of unvested awards under these plans will be assessed by the Board, having regard to the Board approved plan rules and plan policies. All payments and awards are subject to applicable laws.

The MD & CEO has agreed, and the contract provides that, in the event of termination, he will not accept employment or otherwise be engaged in a competitor business in Australia for 12 months.

6.4 Executive KMP Service Agreements

The standard terms of the employment contracts for KMP Executives are shown in Table 9:

Table 9 – Summary of KMP Executives' Service Agreement (2012)

KMP Executives	Term	Service Agreement Summary
CFO	Duration	Ongoing, until notice given by either party.
	Termination by the CFO	3 months notice.
	Termination by the Company	Before 31 December 2011, by giving 12 months notice; and at any time after 1 January 2012, by giving nine months notice.
	Post-employment restraints	Restricted from competitive business in Australia for a period aligned to the notice period.
	Base salary including superannuation	$770,000
All other KMP Executives	Duration	Ongoing, until notice given by either party.
	Termination by the executive	3 months notice.
	Termination by the Company	Before 31 December 2011, by giving 12 months notice; from 1 January 2012 to 31 December 2012, by giving nine months notice; and at any time after 1 January 2013, by giving six months notice.
	Post-employment restraints	Restricted from competitive business in Australia for a period aligned to the notice period.
K R Lewsey	Base salary including super	$682,500
M G Carter	Base salary including super	$630,000
G P Pringle	Base salary including super	$577,500
R J Stephens	Base salary including super	$577,500
L J Cooper	Base salary including super	$577,500
G Robinson	Base salary including super	$577,500
P Scurrah	Base salary including super	$800,000

6.5 Hedging and margin lending policies

Upon listing on the ASX, QR National introduced a policy that prohibits executives granted share-based payments as part of their remuneration from hedging economic exposure to unvested rights that have been issued pursuant to a Group employee share plan. The policy also prohibits margin loan arrangements for the purpose of purchasing QR National shares. Adherence to this policy is monitored regularly and involves each KMP signing an annual declaration of compliance with the policy.

6.6 KMP share ownership policy

During the past financial year, the Board approved a policy whereby within six years of the date of listing of the Company or appointment (whichever is the later), Non-Executive Directors are required to accumulate and maintain one year's Directors' fees worth of shares in the Company; the MD & CEO one year's fixed remuneration in shares; and the MD & CEO's direct reports equivalent to 50 % of their fixed remuneration in shares.

6.7 Company performance and its link to remuneration

In considering QR National's performance, the Committee has regard to the following performance measures in respect of the current financial period. As the Company was only listed on 22 November 2010, these performance measures are not available for prior financial periods. The performance measures for the 2011 financial year are based on results for the full financial year, where available, as QR National's results were prepared as a continuation of the QR Limited consolidated group (refer to note 1 of the Financial Report).

Table 10 – Company performance

	30 June 2012	30 June 2011
Closing share price/Change in share price	3.40 (95¢ above 'retail' price)	3.38 (93¢ above 'retail' price)
Dividends per share	7.4 cents	n/a
TSR	1.3 %	20.2 % (against 20-day VWAP after IPO)
Underlying EBIT	$584m	$383m[1]
LTIFR	2.4 (down from 3.08)	3.08 (down from 6.14)
Safety interactions	1.13 per employee per month	1.10 per employee per month
Transformation project completion, benefit delivery and capability	Majority completed on-time, in full	Majority completed on-time, in full

[1] Restated underlying EBIT due to change in accounting policy

The performance measure which drives half of the LTIA vesting is the Company's TSR performance relative to the companies in an identified peer group.

Note, the share price appreciation graph on page 24 excludes the value that would have been received from dividend payments during the year, and is not equivalent to TSR. The TSR percentage shown in table 10 for 30 June 2011 compares the 20 day VWAP immediately after IPO with the 20-day VWAP up to 30 June 2011. For this reason, the TSR, so calculated, is lower than that suggested by the graph on page 24 of this Annual Report.

Directors' Report (continued)

Remuneration Report

7. Key Management Personnel remuneration

Details of the nature and amount of each major element of compensation of each KMP for the financial year ended 30 June 2012 and 30 June 2011 are set out below.

Table 11 – 2012 Key Management Personnel remuneration

2012	Short-term employee benefits				Post-employment benefits	Long-term benefits		Equity-settled share-based payments		Proportion of compensation performance related[5]	Remuneration consisting of rights for the year
Name	Cash salary and fees	Cash Bonus	Non-monetary benefits[1]	Other	Superannuation	Long-service leave	Termination benefits	Rights[2]	Total		
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	%	%
Non-Executive Directors											
J B Prescott AC	359	-	6	-	42	-	-	-	407	-	-
J Atkin	165	-	-	-	15	-	-	-	180	-	-
R R Caplan	165	-	-	-	15	-	-	-	180	-	-
A J Davies	75	-	-	-	7	-	-	-	82	-	-
G T John AO	165	-	-	-	15	-	-	-	180	-	-
P C Kenny	45	-	-	-	3	-	-	-	48	-	-
A J P Staines	165	-	-	-	15	-	-	-	180	-	-
G T Tilbrook	165	-	-	-	15	-	-	-	180	-	-
K Field	33	-	-	-	3	-	-	-	36	-	-
J Cooper	33	-	-	-	3	-	-	-	36	-	-
Sub-total Non-Executive Directors	**1,370**	**-**	**6**	**-**	**133**	**-**	**-**	**-**	**1,509**	**-**	**-**
Executive											
L E Hockridge	1,651	1,539	25	-	50	31	-	1,270	4,566	62	28
D M O'Toole	755	450	(37)	-	16	16	-	293	1,493	50	20
K R Lewsey	658	400	(12)	-	25	14	-	261	1,346	49	19
M G Carter	526	375	4	-	105	60	-	237	1,307	47	18
G P Pringle	553	345	31	-	25	9	-	223	1,186	48	19
R J Stephens	539	345	31	-	39	10	-	223	1,187	48	19
L J Cooper	472	340	48	-	88	97	-	205	1,250	44	16
G Robinson [3]	575	340	49	-	51	6	-	129	1,150	41	11
P Scurrah [3]	391	400	94	-	7	35	-	251	1,178	55	21
M P McAuliffe [4]	685	-	(59)	-	16	(17)	556	105	1,286	8	8
C M Davies [4]	690	-	(24)	-	15	(5)	615	41	1,332	3	3
Total Key Management Personnel compensation (Group)	**8,865**	**4,534**	**156**	**-**	**570**	**256**	**1,171**	**3,238**	**18,790**	**41**	**17**

[1] Non-monetary benefits represent the value of Reportable Fringe Benefits for the respective Fringe Benefits Tax year ending 31 March, the estimated value of car parking provided, and annual leave accrued or utilised during the financial year.

[2] The value of rights granted in the year is the fair value independently calculated at grant date using an expected outcome model, this was consistent with the Monte-Carlo simulation conducted in the prior year and resulted in similar outcomes. This amount is progressively expensed over the vesting period. The value disclosed includes the value of rights to be granted under the STIAD based on 50 % of the 2012 cash STIA. Refer to note 37 for further details regarding the fair value of rights. These values may not represent the future value that the executive will receive, as the vesting of the rights is subject to the achievement of performance conditions.

[3] Mr Robinson was appointed on 1 December 2011 and Mr Scurrah was appointed on 1 January 2012.

[4] Mr Davies ceased employment on 25 May 2012 and Mr McAuliffe ceased employment 30 June 2012.

[5] The short-term incentives (cash bonus) and deferred short-term incentives and long-term incentives (equity-settled share-based payments) represent the at risk performance-related remuneration.

[6] Mr Davies was appointed on 16 August 2010.

[7] Retention bonuses paid in relation to the IPO are shown as 'Other'.

Table 12 – 2011 Key Management Personnel remuneration

2011	Short-term employee benefits				Post-employment benefits	Long-term benefits		Equity-settled share-based payments		Proportion of compensation performance related [5]	Remuneration consisting of rights for the year
Name	Cash salary and fees	Cash bonus	Non-monetary benefits [1]	Other [7]	Super-annuation	Long-service leave	Termination benefits	Rights [2]	Total		
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	%	%
Non-Executive Directors											
J B Prescott AC	361	-	-	-	31	-	-	-	392	-	-
J Atkin	163	-	-	-	12	-	-	-	175	-	-
R R Caplan	162	-	-	-	12	-	-	-	174	-	-
A J Davies	163	-	-	-	12	-	-	-	175	-	-
G T John AO	163	-	-	-	12	-	-	-	175	-	-
P C Kenny	162	-	-	-	12	-	-	-	174	-	-
A J P Staines	163	-	-	-	12	-	-	-	175	-	-
G T Tilbrook	163	-	-		11	-	-	-	174	-	-
Sub-total Non-Executive Directors	**1,500**	**-**	**-**	**-**	**114**	**-**	**-**	**-**	**1,614**	**-**	**-**
Executive											
L E Hockridge	1,341	1,664	417	-	71	34	-	555	4,082	54	14
D M O'Toole	581	462	177	434	63	10	-	99	1,826	31	5
K R Lewsey	669	407	96	388	32	8	-	89	1,689	29	5
M P McAuliffe	510	362	155	319	44	8	-	80	1,478	30	5
M G Carter	470	353	133	319	81	96	-	78	1,530	28	5
G P Pringle	444	350	13	299	74	6	-	76	1,262	34	6
R J Stephens	477	350	122	330	56	6	-	76	1,417	30	5
L J Cooper	392	310	24	271	66	90	-	68	1,221	31	6
C M Davies [6]	501	348	35	-	31	5	-	78	998	43	8
Total Key Management Personnel compensation (Group)	**6,885**	**4,606**	**1,172**	**2,360**	**632**	**263**	**-**	**1,199**	**17,117**	**34**	**7**

Directors' Report (continued)

Remuneration Report

7.1 Rights granted as compensation

Details of rights granted as compensation, exercised and forfeited during the year in the Performance Rights Plan, including vesting profiles, are as follows:

Table 13 – Rights granted as compensation

Name	Date granted	Incentive Plan	Balance at beginning of year	Rights awarded during the year	Exercised during the year	Forfeited in year	Balance at end of year	Fair value per right at grant date	Exercise price	Vested in year	Forfeited in year	Value of rights granted in year [1]	Value of rights forfeited in year	Date on which grant vests	Expiry date
			No.	No.	No.	No.	No.	$	$	%	%	$'000	$'000		
L E Hockridge	22-Nov-10	STIAD	333,333	-	(333,333)	-	-	2.07	-	100.00	-	-	-	22-Nov-11	30-Sep-12
	22-Nov-10	STIAD	333,333	-	-	-	333,333	2.07	-	-	-	-	-	22-Nov-12	30-Sep-13
	1-Dec-10	LTIAD - EPS	333,333	-	-	-	333,333	1.14	-	-	-	-	-	22-Nov-13	31-Dec-14
	1-Dec-10	LTIAD - TSR	333,333	-	-	-	333,333	0.94	-	-	-	-	-	22-Nov-13	31-Dec-14
	22-Aug-11	LTIAD - EPS	-	247,093	-	-	247,093	2.93	-	-	-	723	-	30-Jun-14	31-Dec-15
	22-Aug-11	LTIAD - TSR	-	247,093	-	-	247,093	1.28	-	-	-	316	-	30-Jun-14	31-Dec-15
D M O'Toole	22-Nov-10	LTIAD - EPS	68,627	-	-	-	68,627	1.14	-	-	-	-	-	30-Sep-13	31-Dec-14
	22-Nov-10	LTIAD - TSR	68,627	-	-	-	68,627	0.94	-	-	-	-	-	22-Nov-13	31-Dec-14
	22-Aug-11	LTIAD - EPS	-	55,959	-	-	55,959	2.93	-	-	-	164	-	30-Jun-14	31-Dec-15
	22-Aug-11	LTIAD - TSR	-	55,959	-	-	55,959	1.28	-	-	-	72	-	30-Jun-14	31-Dec-15
	28-Sep-11	STIAD	-	33,612	-	-	33,612	3.44	-	-	-	116	-	28-Sep-12	1-Oct-14
	28-Sep-11	STIAD	-	33,612	-	-	33,612	3.44	-	-	-	116	-	28-Sep-13	1-Oct-14
K R Lewsey	22-Nov-10	LTIAD - EPS	63,725	-	-	-	63,725	1.14	-	-	-	-	-	30-Sep-13	31-Dec-14
	22-Nov-10	LTIAD - TSR	63,725	-	-	-	63,725	0.94	-	-	-	-	-	22-Nov-13	31-Dec-14
	22-Aug-11	LTIAD - EPS	-	49,600	-	-	49,600	2.93	-	-	-	145	-	30-Jun-14	31-Dec-15
	22-Aug-11	LTIAD - TSR	-	49,600	-	-	49,600	1.28	-	-	-	63	-	30-Jun-14	31-Dec-15
	28-Sep-11	STIAD	-	29,615	-	-	29,615	3.44	-	-	-	102	-	28-Sep-12	1-Oct-14
	28-Sep-11	STIAD	-	29,615	-	-	29,615	3.44	-	-	-	102	-	28-Sep-13	1-Oct-14
M P McAuliffe	22-Nov-10	LTIAD - EPS	58,824	-	(31,042)	(27,782)	-	1.14	-	53.00	47.00	-	32	30-Sep-13	31-Dec-14
	22-Nov-10	LTIAD - TSR	58,824	-	(31,041)	(27,783)	-	0.94	-	53.00	47.00	-	26	22-Nov-13	31-Dec-14
	22-Aug-11	LTIAD - EPS	-	45,785	(15,260)	(30,525)	-	2.93	-	33.00	67.00	134	89	30-Jun-14	31-Dec-15
	22-Aug-11	LTIAD - TSR	-	45,785	(15,260)	(30,525)	-	1.28	-	33.00	67.00	59	39	30-Jun-14	31-Dec-15
	28-Sep-11	STIAD	-	26,344	-	(26,344)	-	3.44	-	-	100.00	91	91	28-Sep-12	1-Oct-14
	28-Sep-11	STIAD	-	26,344	-	(26,344)	-	3.44	-	-	100.00	91	91	28-Sep-13	1-Oct-14
M G Carter	22-Nov-10	LTIAD - EPS	58,824	-	-	-	58,824	1.14	-	-	-	-	-	30-Sep-13	31-Dec-14
	22-Nov-10	LTIAD - TSR	58,824	-	-	-	58,824	0.94	-	-	-	-	-	22-Nov-13	31-Dec-14
	22-Aug-11	LTIAD - EPS	-	45,785	-	-	45,785	2.93	-	-	-	134	-	30-Jun-14	31-Dec-15
	22-Aug-11	LTIAD - TSR	-	45,785	-	-	45,785	1.28	-	-	-	59	-	30-Jun-14	31-Dec-15
	28-Sep-11	STIAD	-	25,618	-	-	25,618	3.44	-	-	-	88	-	28-Sep-12	1-Oct-14
	28-Sep-11	STIAD	-	25,618	-	-	25,618	3.44	-	-	-	88	-	28-Sep-13	1-Oct-14

Table 13 – Rights granted as compensation (continued)

Name	Date granted	Incentive Plan	Balance at beginning of year	Rights awarded during the year	Exercised during the year	Forfeited in year	Balance at end of year	Fair value per right at grant date	Exercise price	Vested in year	Forfeited in year	Value of rights granted in year [1]	Value of rights forfeited in year	Date on which grant vests	Expiry date
			No.	No.	No.	No.	No.	$	$	%	%	$'000	$'000		
G P Pringle	22-Nov-10	LTIAD - EPS	53,922	-	-	-	53,922	1.14	-	-	-	-	-	30-Sep-13	31-Dec-14
	22-Nov-10	LTIAD - TSR	53,922	-	-	-	53,922	0.94	-	-	-	-	-	22-Nov-13	31-Dec-14
	22-Aug-11	LTIAD - EPS	-	41,969	-	-	41,969	2.93	-	-	-	123	-	30-Jun-14	31-Dec-15
	22-Aug-11	LTIAD - TSR	-	41,969	-	-	41,969	1.28	-	-	-	54	-	30-Jun-14	31-Dec-15
	28-Sep-11	STIAD	-	25,436	-	-	25,436	3.44	-	-	-	88	-	28-Sep-12	1-Oct-14
	28-Sep-11	STIAD	-	25,436	-	-	25,436	3.44	-	-	-	88	-	28-Sep-13	1-Oct-14
R J Stephens	22-Nov-10	LTIAD - EPS	53,922	-	-	-	53,922	1.14	-	-	-	-	-	30-Sep-13	31-Dec-14
	22-Nov-10	LTIAD - TSR	53,922	-	-	-	53,922	0.94	-	-	-	-	-	22-Nov-13	31-Dec-14
	22-Aug-11	LTIAD - EPS	-	41,969	-	-	41,969	2.93	-	-	-	123	-	30-Jun-14	31-Dec-15
	22-Aug-11	LTIAD - TSR	-	41,969	-	-	41,969	1.28	-	-	-	54	-	30-Jun-14	31-Dec-15
	28-Sep-11	STIAD	-	25,436	-	-	25,436	3.44	-	-	-	88	-	28-Sep-12	1-Oct-14
	28-Sep-11	STIAD	-	25,436	-	-	25,436	3.44	-	-	-	88	-	28-Sep-13	1-Oct-14
L J Cooper	22-Nov-10	LTIAD - EPS	49,020	-	-	-	49,020	1.14	-	-	-	-	-	30-Sep-13	31-Dec-14
	22-Nov-10	LTIAD - TSR	49,020	-	-	-	49,020	0.94	-	-	-	-	-	22-Nov-13	31-Dec-14
	22-Aug-11	LTIAD - EPS	-	38,154	-	-	38,154	2.93	-	-	-	112	-	30-Jun-14	31-Dec-15
	22-Aug-11	LTIAD - TSR	-	38,154	-	-	38,154	1.28	-	-	-	49	-	30-Jun-14	31-Dec-15
	28-Sep-11	STIAD	-	22,529	-	-	22,529	3.44	-	-	-	78	-	28-Sep-12	1-Oct-14
	28-Sep-11	STIAD	-	22,529	-	-	22,529	3.44	-	-	-	78	-	28-Sep-13	1-Oct-14
G Robinson	14-Jun-11	Retention	-	16,000	(16,000)	-	-	3.24	-	100.00	-	52	-	14-Jun-12	
	22-Aug-11	LTIAD - EPS	-	17,442	-	-	17,442	2.93	-	-	-	51	-	30-Jun-14	31-Dec-15
	22-Aug-11	LTIAD - TSR	-	17,442	-	-	17,442	1.28	-	-	-	22	-	30-Jun-14	31-Dec-15
P Scurrah	1-Jan-12	Retention	-	40,000	(40,000)	-	-	3.44	-	100.00	-	138	-	24-Feb-12	
	1-Jan-12	Retention	-	30,000		-	30,000	3.44	-	-	-	103	-	1-Jan-13	
C M Davies	22-Nov-10	LTIAD - EPS	58,824	-	-	-	58,824	1.14	-	-	-	-	-	30-Sep-13	31-Dec-14
	22-Nov-10	LTIAD - TSR	58,824	-	-	-	58,824	0.94	-	-	-	-	-	22-Nov-13	31-Dec-14
	28-Sep-11	STIAD	-	25,524	-	(25,524)	-	3.44	-	-	100.00	87	87	28-Sep-12	1-Oct-14
	28-Sep-11	STIAD	-	25,524	-	(25,524)	-	3.44	-	-	100.00	87	87	28-Sep-13	1-Oct-14
			2,264,708	1,681,740	(481,936)	(220,351)	3,244,161					4,226	542		

1 The value of rights granted in the year is the fair value independently calculated at grant date using an expected outcome model, this was consistent with the Monte-Carlo simulation conducted in the prior year and resulted in similar outcomes. This amount is progressively expensed over the vesting period.

The number of rights to be granted under the STIAD for performance throughout the year ended 30 June 2012 was determined by the Remuneration and Succession Committee in August 2011, based on the five-day VWAP of the Company's share price leading up to that date. The total value of rights to be granted represents 50 % of the STIA bonuses paid to executives in respect of the year ended 30 June 2011.

Directors' Report (continued)

Remuneration Report

7.2 Bonuses and share-based compensation benefits

For each cash bonus and grant of rights during the financial year, the percentage of the available bonus or grant that was payable or that vested in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria, is set out below. The rights vest after three years, provided the vesting conditions are met. No rights will vest if the conditions are not satisfied, hence the minimum value of the right yet to vest is nil. The maximum value of the right yet to vest has been determined as the amount of the grant date fair value of the rights, which will be expensed over the vesting period of the award.

Table 14 – Bonuses and share-based compensation benefits

	Cash bonus		Share-based compensation benefits (rights)					
Name	Payable	Forfeited	Year granted	Vested	Forfeited	Financial years in which rights may vest	Minimum total value of grant yet to vest	Maximum total value of grant yet to vest
	%	%		%	%		$'000	$'000
L E Hockridge	91 %	9 %	2011	100.00	-	2012	-	-
			2011	-	-	2013	-	691
			2011	-	-	2014	-	694
			2012	-	-	2014	-	1,039
D M O'Toole	78 %	22 %	2011	-	-	2014	-	143
			2012	-	-	2013	-	116
			2012	-	-	2014	-	351
K R Lewsey	78 %	22 %	2011	-	-	2014	-	133
			2012	-	-	2013	-	102
			2012	-	-	2014	-	310
M P McAuliffe	0 %	100 %	2011	52.77	47.23	2014	-	-
			2012	-	100.00	2013	-	-
			2012	25.88	74.12	2014	-	-
M G Carter	79 %	21 %	2011	-	-	2014	-	123
			2012	-	-	2013	-	88
			2012	-	-	2014	-	281
G P Pringle	80 %	20 %	2011	-	-	2014	-	112
			2012	-	-	2013	-	88
			2012	-	-	2014	-	264
R J Stephens	80 %	20 %	2011	-	-	2014	-	112
			2012	-	-	2013	-	88
			2012	-	-	2014	-	264
L J Cooper	78 %	22 %	2011	-	-	2014	-	102
			2012	-	-	2013	-	78
			2012	-	-	2014	-	238
G Robinson	78 %	22 %	2011	100.00	-	2012	-	-
			2012	-	-	2014	-	73
P Scurrah	67 %	33 %	2012	100.00	-	2012	-	-
			2012	-	-	2013	-	103
C M Davies	0 %	100 %	2011	-	-	2014	-	123
			2012	-	100.00	2013	-	-
			2012	-	100.00	2014	-	-

Corporate Governance Statement

In operating its portfolio of above and below rail and road transport assets, QR National Limited and the entities it controls (**QR National** or the **Company**) business objective is to create sustainable value growth for its shareholders by:

- Raising performance of the Company's operations to 'best in class' levels
- Maximising our share of the strong underlying growth within our core markets through innovative customer focused solutions
- Seeking out profitable new growth opportunities in existing and adjacent markets.

Fundamental to the long term success of QR National's business objective is a commitment to achieving and demonstrating the highest standards of corporate governance.

The Board is committed to pursuing its business objectives in a manner which is consistent with the highest standards of corporate governance and, in so doing, to embed, promote and foster high standards of corporate integrity, transparency and ethical standards in all its activities.

This Statement sets out QR National's corporate governance practices as at 30 June 2012.

Since listing on the Australian Securities Exchange (**ASX**) on 22 November 2010, the Company has complied with all of the Corporate Governance Principles and Recommendations released by the ASX Corporate Governance Council.

Further information regarding the Company's corporate governance and Board practices, including copies of the Company's Constitution, Charters, Committee Terms of Reference and key corporate governance documents referred to in this Statement are available in the Corporate Governance section of the Company's website, **www.qrnational.com.au** (**QR National website**). These documents are reviewed regularly to address any changes in governance practices and changes to the law. Any additional key corporate governance documents that may be adopted by the Company during the year will also be made available via the Company's website at or about the time they are adopted.

The Board of Directors

The Board is responsible for the overall stewardship, strategic direction, governance and performance of QR National.

The Company's Constitution empowers the Board to conduct the business of the Company and also enables the Board to delegate authority to Board Committees and/or the MD & CEO.

The Board operates under a Charter which sets out the responsibilities of the Board and also the roles of the Chairman, individual Directors, the MD & CEO and the Company Secretary.

The key functions and responsibilities reserved to the Board include:

- The appointment of the MD & CEO and reports
- Approval of the overall Company strategy
- Approving annual budgets
- Approving and monitoring the framework on governance, safety and risk management
- The succession and remuneration of the Board and senior executives.

The roles and responsibilities of Directors are also formalised in the letter of appointment which each Director receives and commits to on their appointment.

The letters of appointment also specify the time commitment envisaged, expectations in relation to committee work, remuneration arrangements, induction processes and details of the Company's key governance policies, such as the securities dealing policy.

Board Membership and Size

The Board currently comprises nine Directors, including a Non-Executive Chairman, seven Non-Executive Directors and the MD & CEO.

The Chairman, MD & CEO, and five of the Non-Executive Directors were appointed on the date of incorporation of QR National (14 September 2010). Two of the Non-Executive Directors were appointed on 19 April 2012.

The Board comprises Directors who bring with them a range of skills, expertise and experience in finance, human resources, engineering, transportation and heavy industry, mining and resources, strategy, governance, risk management and government. The Board is skills based and all of the Non-Executive Directors are independent.

Details of Directors' skills, experience, expertise and committee memberships are disclosed on pages 18 to 20 of the Annual Report.

The Board's composition is determined by the Company's Constitution and the principles set out in the Board Charter, Diversity Policy and Selection, Appointment and Re-election of Non-Executive Director Policy.

In summary, the Board composition principles are as follows:

- A majority of Directors are to be independent Non-Executive Directors
- There are to be a minimum of three Directors
- There must be at least one female Director
- The roles of Chairman and that of MD & CEO must be held by separate persons
- The Chairman must be an independent Non-Executive Director
- The Board as a whole should comprise a range and mix of skills and experience
- The principles of diversity are to be embraced
- In the absence of special circumstances or a contrary decision by the Board, a Non-Executive Director must retire (or stand for re-election annually) at the next Annual General Meeting (**AGM**) held after that Director has served nine years or more on the Board, calculated from the date of the Director's first election.

The Board reviewed its composition and size in 2011. The review determined the appropriate size of the Board for QR National should be a maximum of 10 Directors. At the 2011 AGM shareholders approved an amendment to the QR National Constitution to reduce the maximum size of the Board from 12 to 10 Directors.

Director Independence

In accordance with the Board Charter the majority of Directors are independent. Only the MD & CEO is not considered independent, by virtue of being an executive of the Company.

The Board Charter provides that an independent Director is a Non-Executive Director who is not a member of management and whom the Board considers independent, having regard to the following guidelines, without limitation:

- The Director is not a substantial shareholder of the Company or an officer of a substantial shareholder of the Company.

Corporate Governance Statement (continued)

- The Director has not, within the past three years, been employed by the Company in an executive capacity, or in the past three years, been a principal or employee of a material professional adviser or consultant of the Company.
- The Director has not been a material supplier or customer of the Company, or otherwise been associated directly or indirectly with a material supplier or customer of the Company, where materiality as a customer of the Company refers to payments of more than 2% of the Company's total consolidated revenue accumulated over the Company's past financial year, and in relation to materiality as a supplier, to payments that are the greater of either $250,000 or 2% of total consolidated revenue accumulated over the supplier's past financial year.
- In the absence of special circumstances or a contrary decision by the Board, the period of office held by the Director is not more than nine years, calculated from the date of the Director's first election.
- The Director is free from any interest or relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

If a Director does not meet these guidelines, it is not conclusive that the Director is independent. The decision as to whether a Director is independent is a decision made by the Board.

The Board considers materiality thresholds on a case-by-case basis, if required. Each Director confirms their independence at each Board meeting and the Board as a whole assesses Directors' independence regularly. During the year, the Board reviewed existing guidelines and an outcome of the review was the adoption of additional guidelines setting out quantitative materiality thresholds to assist Directors' when assessing the continuing independence of Directors. The Board has confirmed the independence of all Non-Executive Directors. Only the MD & CEO is not considered independent, by virtue of being an executive of the Company.

All Directors must declare actual or potential conflicts of interest and excuse themselves from discussions on issues where they may have an actual or potential conflict of interest.

In circumstances where a conflict is believed to exist the Director concerned will not take part in any decision or consideration of the issue. In addition, the Director will not receive copies of the relevant Board papers.

During the year, the Board adopted a Related Party Transactions Policy and Procedure. This policy further refines the procedure for identifying, disclosing and, as required, seeking approval of related party transactions.

Tenure and Retirement

To promote demonstrable independence the Company has in place a tenure policy for Directors, which provides that, in the absence of special circumstances or a decision made otherwise by the Board, a Non-Executive Director must retire (or stand for re-election annually) at the next AGM which is held after a Director has served nine years or more on the Board from the date of their first election.

In accordance with the Company's Constitution and ASX Listing Rules, a Non-Executive Director who wishes to continue in their role as Non-Executive Director must seek re-election by shareholders at a general meeting.

Chairman

John Prescott AC, an independent Non-Executive Director has been Chairman of the Company since September 2010. The role of the Chairman is clearly set out in the Board Charter. It includes chairing meetings, providing Board leadership and promoting a respectful, consultative relationship between Board and management as well as maintaining relationships with key stakeholders.

Company Secretary

The Company Secretary is accountable to the Board for facilitating the Company's corporate governance processes. Each Director is entitled to access the advice and services of the Company Secretary.

In accordance with the Company's Constitution, the appointment or removal of the Company Secretary is a matter for the Board as a whole.

Details of the Company Secretary's experience and qualifications are set out on page 20 of the Annual Report.

Board Process

Formal Board meetings are held at least nine times during the year. In addition to these formal meetings the Board schedules off-site meetings dedicated to strategy and site visits of the Company's operations.

The Board also holds supplementary meetings to address financial updates and any significant matters that may arise.

Details of Board and Committee meetings held during the year, and attendances at those meetings, are set out in the Annual Report on page 21.

Each formal Board meeting considers various matters including, but not limited to, the MD & CEO's Report, the QR National Group Monthly Performance Report and a Workplace Health and Safety Report. Periodic reports are also provided on diversity, governance, and compliance, as well as submissions on the items specified in the Board Charter. At the end of each Board meeting, the Non-Executive Directors meet without management.

The Chief Financial Officer (**CFO**) and Company Secretary are present at all QR National Board meetings, and other senior executives attend from time to time at the invitation of the Board or when a matter under their responsibility is being considered. In accordance with the Board Charter, Directors may also access senior management at any time through the Chairman, MD & CEO or Company Secretary.

To provide due consideration of items for discussion and/or decision, Board and Committee papers are distributed five business days prior to each meeting. The Company continues to deliver Board and Committee Papers electronically, as part of the Company's commitment to governance excellence and innovation.

Director Induction and Ongoing Education

An induction process including appointment letters and ongoing education exists to promote early, active and relevant involvement of new members of the Board.

All QR National Directors are members of the Australian Institute of Company Directors and are encouraged to further their knowledge through participation in industry, governance and government forums, and attend seminars hosted by the Australian Institute of Company Directors and other peak professional bodies.

In addition to peer review, interaction and networking with other Directors and industry leaders, QR National Directors participate from time to time in QR National leadership forums and actively engage with QR National employees by visiting QR National operations to gain an understanding of operational employee requirements, challenges and issues.

Directors are encouraged and given the opportunity to broaden their knowledge of the business by visiting offices in different locations. During the year, Directors conducted site visits at Abbott Point, Queensland and Altona, Victoria.

Independent Advice and Access to Information

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

Board Committees

To assist the Board in performing its responsibilities, it has established four Committees. Those Committees are:

- Audit & Risk Management Committee
- Remuneration & Succession Committee
- Governance & Nomination Committee
- Safety & Environment Committee.

Each Committee is chaired by a Non-Executive Director and comprises a majority of independent Non-Executive Directors.

Each Committee is governed by its own Terms of Reference which are reviewed annually.

Details of the membership of each of the Committees, including the names and qualifications of the Committee members and their attendance (along with details of the number of meetings held in the 2011–2012 financial year) are set out on page 21 of the Annual Report.

Audit & Risk Management Committee

The Audit & Risk Management Committee assists the Board by reviewing and monitoring the integrity of QR National's financial reporting systems, as well as risk management, internal control structures and compliance systems.

Under the Audit & Risk Management Committee's Terms of Reference there must be at least three members of the Committee, all of whom must be independent Non-Executive Directors, and the Chair of the Committee must not be the Chairman of the Board. Currently, the Committee consists of four members that are all (including the Chairman) independent Non-Executive Directors.

In addition to the Audit & Risk Management Committee members, the MD & CEO, CFO, Chief Internal Auditor, external auditors and Company Secretary regularly attend Audit & Risk Management Committee meetings.

Remuneration & Succession Committee

The Remuneration & Succession Committee assists the Board by reviewing and providing recommendations to the Board on the recruitment, retention and remuneration of the MD & CEO and senior executives, as well as the performance measurement arrangements for Directors, the MD & CEO and senior executives.

Under the Remuneration & Succession Committee's Terms of Reference there must be at least three members of the Committee, a majority of whom must be independent Non-Executive Directors, and the Chair of the Committee must be an independent Non-Executive Director. Currently, the Committee consists of four members that are all (including the Chairman) independent Non-Executive Directors.

Governance & Nomination Committee

The Governance & Nomination Committee assists the Board by reviewing and making recommendations on the governance framework, policies and compliance, as well as on Board appointments, succession, diversity, composition and performance.

Under its Terms of Reference, the Governance & Nomination Committee is to consist of at least three Board members. The Committee currently consists of four members, including three independent Non-Executive Directors. The Chairman of the Governance & Nomination Committee is an independent Non-Executive Director.

Safety & Environment Committee

The Safety & Environment Committee assists the Board by reviewing and making recommendations to the Board on safety and environmental performance, strategies, policies and compliance.

Under its Terms of Reference, the Safety & Environment Committee is to consist of at least three Board members. The Committee currently consists of four members, including three independent Non-Executive Directors. The Chairman of the Safety & Environment Committee is an independent Non-Executive Director.

QR Network Board

QR Network Pty Ltd (**QR Network**) is a wholly-owned subsidiary of QR National and operates the below rail business of QR National. QR Network is subject to ring-fencing obligations under the *Queensland Competition Authority Act 1997* (Qld) and the access undertakings it provides to the Queensland Competition Authority from time to time.

Additional governance requirements operate to ensure that QR Network's ring-fencing obligations are met.

A majority of QR Network Directors are required to be independent. The QR Network Board is currently comprised of five Directors, including three independent Non-Executive Directors. The Network Board Charter is available on the QR National website.

The Chairman of the QR Network Board is an independent Non-Executive Director.

Board and Committee Performance Evaluation

A performance review is undertaken annually in relation to the Board and the Board Committees. In addition to individual evaluation sessions between the Chairman and individual Directors, a formal self-evaluation questionnaire is used to facilitate the annual performance review process.

The annual review of the Chairman of the Board is facilitated by the Chairman of the Governance & Nominations Committee.

During the year, a review and evaluation of the performance of the Board, the Chairman, each Director and each Board Committee was conducted in accordance with the process described above.

As part its ongoing responsibilities, the Board actively focuses on strategy development, the development of talent and executive succession, and engagement in the Company's operations by undertaking site visits.

Management Performance Evaluation

A key function of the Board is to monitor the performance of management according to the strategies and objectives decided by the Board. The Board sets the financial, operational, management and individual targets of the MD & CEO annually. The MD & CEO (in consultation with the Board) sets targets for his direct reports.

Performance against these targets is assessed periodically throughout the year. Performance evaluations for senior management have been completed for the year end and details of the process followed are set out in the Remuneration Report within the Annual Report.

The Board, together with the Remuneration & Succession Committee, reviews the performance of the MD & CEO and Executive Leadership Team members, inclusive of the CFO and Company Secretary.

Further details are set out in the Remuneration Report within the Annual Report.

Corporate Governance Statement (continued)

MD & CEO, Senior Management and Delegations

The day-to-day management of the Company and the execution of the Company's policies and strategies are delegated to the MD & CEO, and through the MD & CEO, to other Senior Executives.

The MD & CEO and those senior executives comprising the Executive Leadership Team have their roles and responsibilities set out in their employment contracts.

Delegations made by the Board and the delegation framework supporting delegations by the MD & CEO are reviewed annually by the Board.

Executive Management Structure

The senior executive management structure of the Company comprises the MD & CEO and the Executive Leadership Team.

The Executive Leadership Team comprises the MD & CEO and his direct reports.

The role of the Executive Leadership Team is to provide the MD & CEO with support and assistance in managing the Group's performance and implementing the key strategic initiatives set by the Board.

The Executive Leadership Team supports the MD & CEO in leading change in the QR National Group, assessing risk and executing mitigation actions, monitoring compliance with policies, developing strategies for Board approval, assessing business and key organisational matters and making recommendations on courses of action.

The Executive Leadership Team also provides organisational leadership to ensure alignment and execution of corporate strategy.

Typically, the Executive Leadership Team meets every week and has full day meetings once a month.

Remuneration Practices

The Company seeks to attract and retain high-performance Directors and executives with appropriate skills, qualifications and experience to add value to the company and fulfil the roles and responsibilities required.

Executive remuneration is to reflect performance and, accordingly, remuneration is structured with a fixed component and performance-based remuneration component.

Non-Executive Directors are paid fixed fees for their services in accordance with the Company's Constitution. Fees paid are a composite fee (covering all Board and Committee responsibilities) and any contributions by QR National to a fund for the purposes of superannuation benefits for a Director. No other retirement benefits schemes are in place in respect to Non-Executive Directors.

Senior Executive and Non-Executive Director Share Holding and Retention Policy

The Company has in place a share holding and retention policy which applies to Non–Executive Directors, the MD & CEO and the direct reports of the MD & CEO. It provides that within six years of the date of listing of the Company or appointment (whichever is the later date):

- Non-Executive Directors are expected to accumulate and maintain one year worth of Directors' fees of shares in the Company (to be calculated with reference to the total fees paid during the period divided by the number of years).
- The MD & CEO is expected to accumulate and maintain one year worth of fixed remuneration in shares in the Company (to be calculated with reference to the total fixed remuneration paid during the period divided by the number of years).
- The MD & CEO's direct reports are expected to accumulate and maintain 50 % of one year worth of fixed remuneration in shares in the Company (to be calculated with reference to the total fixed remuneration paid during the period divided by the number of years).

Further information on remuneration is disclosed on pages 24 to 38 in the Remuneration Report within the Annual Report.

Code of Conduct

The Company recognises the critical importance of integrity, honesty and fairness in its dealings.

QR National has adopted and continues to promote its Company values, which are:

- **Safety** – Safety of ourselves and others is our number one priority.
- **Integrity** – We are honest and fair and conduct business with the highest ethical standards.
- **Leadership, Passion and Courage** – We are passionate about leading change. We deliver results with energy and conviction.
- **World Class Performance** – We deliver world class performance and superior value for our shareholders, customers and staff.

These values shape how QR National makes decisions, treats people, runs its business and gets results.

The QR National Code of Conduct supports the Company's values and provides guidance on Company expectations, with respect to compliance with its ethical, legal and statutory obligations.

The key principles of the Code of Conduct provide that QR National Group employees must:

- Be safe and fit for work
- Behave professionally
- Respect others
- Conduct ourselves lawfully, ethically and fairly
- Responsibly manage conflicts of interest
- Protect confidential information
- Use the Company's systems, equipment, property and tools appropriately
- Uphold securities exchange requirements
- Consider the community and the environment
- Report suspected breaches of the Code of Conduct.

Compliance and Assurance

Adherence to the Company's Code of Conduct and other policies is monitored by QR National's Internal Audit and Risk Management teams. The Company also conducts an annual compliance certificate process through which business units evaluate and report to management on their compliance with the Company's key legislative obligations.

An e-learning module was implemented during the year to assist all QR National employees to understand the Code. This training package was recognised with an award at the Asia Pacific Learning and Technology Impact Awards 2012.

Whistleblower Policy

The Company is committed to ensuring all of its business activities are carried out in a way that is both ethical and compliant and also recognises that any genuine commitment to detecting and preventing illegal and/or improper conduct must include a mechanism whereby employees and others can report their concerns freely and without fear of reprisal or intimidation. QR National has adopted a Whistleblower Policy that provides such a mechanism.

The Whistleblower Policy provides guidance on how illegal or improper conduct can be reported, how it will be investigated, and the protection available to those acting as whistleblowers. QR National has established a Whistleblower Hotline as a means by which concerns about illegal or improper conduct can be reported.

Political Donations

QR National has a policy of impartiality with respect to party politics and does not make donations to political parties or their members.

Diversity

QR National has a Diversity Policy which sets out its objectives and reporting practices with respect to diversity. This policy is available on the QR National website.

The measurable objectives for gender diversity, agreed by QR National's Board in 2011 for the 2012 year, are set out below:

- At least one female Director at all times
- The percentage of females in the Management Leadership Team to be a minimum of 15 % by the end of FY13
- From FY12 at least 25 % of future graduate intakes to be female.

A comparative of QR National Group's female employees between 30 June 2011 and 30 June 2012 is set out below:

- 12.35 % of total employees at 30 June 2012 (11.64 % at 30 June 2011)
- 10.53 % of Management Leadership Team at 30 June 2012 (11.29 % at 30 June 2011)
- 30 % of graduate intake
- 22 % of the Board at 30 June 2012 (11.11 % at 30 June 2011).

During the year, QR National established a Diversity Council. Consistent with the stated purpose of the QR National Diversity Policy, the aim of the Diversity Council is to build a workforce and a work environment that promotes diversity by employing people from both genders, with different gender identities, impairments and abilities, ages, languages, ethnicities, cultural backgrounds, sexual orientations, religious beliefs, political beliefs, trade union activities, parental and family responsibilities, and social backgrounds. During the year, the Diversity Council successfully established various nationwide initiatives including:

- A Senior Women's Networking Group was established in December 2011, providing the opportunity for female employees to connect and network with women in senior and middle management positions within QR National. The Group meets on a bi-monthly basis.
- The Inaugural QR National International Women's Day Lunch was launched. Women from high schools, universities and Indigenous groups had the opportunity to hear from and engage with women employed in a range of positions in QR National.
- Management leadership teams have undertaken development to raise understanding and awareness of unconscious bias and how it can influence key decision-making in recruitment, promotion and development opportunities.
- Women in senior roles have been sponsored to participate in the Chief Executive Women's Leaders program. QR National hosted a Chief Executive Women's program session in May 2012.
- QR National is committed to increasing Indigenous employment across its national footprint. The Company signed the Australian Employment Covenant in 2011 to provide sustainable job opportunities for Indigenous Australians. Through the work of an Indigenous Ambassador, the Major Skills team, and management, throughout key locations, QR National has been able to build important relationships and networks with local communities, high schools and employment groups, resulting in increased employment prospects for Indigenous young people.
- A variety of employment strategies including site visits, school talks, Indigenous career fairs, work experience, school-based apprentices and full apprenticeships, have been used for Indigenous young men and women to join QR National. Mentors have been used to support these young people through their careers.
- QR National has reviewed its recruitment practices to ensure there are no barriers for Indigenous applicants. This has included cross-cultural training for the National Employment Centre staff.

Corporate Responsibility Statement

QR National recognises that acting responsibly, operating in a sustainable manner, making a positive contribution to society is vital to our ongoing business success.

We adhere to the following principles:

Safety

- Safety for ourselves and others is our number one priority.
- We work with our people, customers and suppliers to create and maintain a safe workplace.
- We have comprehensive safety policies and are committed to our target of ZEROHarm.

Community

- We support the communities in which we work through community investment and engagement programs.
- We are part of the community and we are here for the long term.

People

- We are committed to promoting a non-discriminatory, diverse, inclusive, respectful and collaborative business.
- We promote equal employment opportunity in our recruitment, selection and employment practices.
- We are committed to the ongoing education and training of our people.

Performance

- We strive to deliver world-class performance and superior value for our customers.
- We deliver results with energy and conviction.
- We commit to delivering outstanding corporate performance and returns to our shareholders.

Integrity

- We adhere to our Code of Conduct.
- We are honest and fair, and conduct business with the highest ethical standards.
- We adhere to high standards of corporate governance, and report annually on our corporate governance.

Environment

- We responsibly consider the community and the environment in our actions and decisions.
- We are committed to the efficient use of resources, and waste minimisation.
- We are committed to promoting rail as an energy efficient mode of transport.

Details of the Company's safety, people, environment and community activities and details of the Company's sustainability activities are set out on pages 14 to 17 of the Annual Report.

Disclosure and Communications Policy

QR National is committed to keeping its shareholders fully informed on all matters that are relevant or material to its financial performance.

QR National has detailed policies and procedures in place to ensure compliance with ASX Listing Rules and Corporations Act continuous disclosure requirements including a Disclosure and Communications Policy.

In addition to complying with its disclosure obligations under Listing Rule 3.1 by issuing ASX announcements, QR National communicates with its shareholders through its Half Year Results, Full Year Results and Annual Report. Market announcements made to the ASX are also made available on the QR National website. Shareholders are also given an opportunity to ask questions of the Company at its Annual General Meeting.

Corporate Governance Statement (continued)

These policies and practices ensure that all shareholders and investors have equal access to QR National's information.

Disclosure Committee

In accordance with the Company's Disclosure and Communications Policy the Company has established a Disclosure Committee.

The Disclosure Committee's role is to consider potentially material price sensitive information and determine whether that information is required to be disclosed to the ASX.

The members of the Committee may vary from time to time but must consist of at least two members of the Executive Leadership Team and a Non-Executive Director of the Company. In practice, the Committee has comprised the MD & CEO, CFO, Company Secretary and Chairman of the Board.

The Company has established guidelines to assist officers and employees of the Company with complying with the Company's Disclosure and Communications Policy and these are available on the QR National website.

Securities Dealing

QR National is committed to ensuring the Company and its employees act lawfully at all times in their dealings with securities and inside information.

The Company's Securities Dealing Policy applies to all Directors and employees of the Group and:

- Provides guidance on the legal restrictions on dealing in securities
- Prescribes share trading black-out periods (commencing 1 January and 1 July and continuing until, and inclusive of, the day of filing each of the Half Year and Full Year Financial Reports respectively)
- Sets out additional limitations on trading by Directors and executives including a prohibition on margin loans and hedging arrangements.

Material Business Risk Management

The Company is committed to managing risks in an integrated, systematic and practical manner. The overall objective of risk management is to assist the Company to achieve its objectives by appropriately considering both threats and opportunities and making informed decisions.

The Audit & Risk Management Committee oversees the process for identifying and managing risk in QR National, in accordance with the Risk Management, Compliance & Assurance Policy (**Risk Policy**).

The Risk Policy, summarised below, sets out the actions that QR National will undertake to manage risk:

- Applying risk tolerance thresholds, both at the enterprise level and at the business level, for each major category of identified risks.
- Developing, implementing and maintaining principles and processes that support the effective management of QR National's compliance obligations.
- Effectively managing risks and compliance obligations, documenting risk management and compliance activities, and providing timely assurance to the MD & CEO and the Board.
- Assessing and continuously improving the effectiveness of the risk management and compliance processes and controls, through training, ongoing monitoring, periodic reviews, communication and consultation.

During the reporting period management has reported to the Board on the effectiveness of the Company's management of material business risks. Management has confirmed that the Company's Risk Management, Compliance & Assurance Framework (**Framework**) and Risk Policy align with the best practice guidelines, and that the Framework is adequate in terms of its design and content to give effect to the Risk Policy.

Further supporting the Company's risk management processes QR National has:

- An internal audit function that is independent of the external auditor (described below)
- A risk register with risk profiles populated at the various layers of the organisation
- A management specification that outlines the processes for the prevention, detection and management of fraud within QR National, and for fair dealing in matters pertaining to fraud.

Internal and External Audit

The Company has an internal audit function that operates under an internal audit charter.

The internal audit function is independent of management and the external auditor, and is overseen by the Audit & Risk Management Committee.

The Chief Internal Auditor provides ongoing audit reports to the Audit & Risk Management Committee, as well as an annual assessment of the adequacy and effectiveness of the Group's control processes and risk management procedures.

The external audit function is performed by PricewaterhouseCoopers.

QR National has adopted a Non-Audit Services Policy which prescribes the manner in which QR National will engage PricewaterhouseCoopers, without compromising their independence as the Company's external auditor.

The Non-Audit Services Policy also sets out prohibited services which PricewaterhouseCoopers may not provide to the Company in order to maintain the independence required to execute the role of external auditor. In essence, this policy provides that PricewaterhouseCoopers must not provide services that have the potential to impair or appear to impair the independence of its audit role.

PricewaterhouseCoopers has provided an Auditor's Independence Declaration in relation to its audit of the QR National FY12 Financial Report. A copy of this Declaration is set out on page 23 of the Annual Report.

Further details are set out in the Directors' Report on pages 18 to 44 of the Annual Report.

CEO and CFO Declaration

The Board has obtained a written assurance from the MD & CEO and CFO that the declaration provided under section 295A of the Corporations Act and Corporate Governance Principle 7.3 are founded on a sound system of risk management and internal control, and that the system is operating effectively in all material respects in relation to financial reporting and material business risks.

The MD & CEO and CFO Declaration, relating to the Company's Financial Report for the year ended 30 June 2012, was provided prior to approving and signing the Financial Report.

Financial Report for the year ended 30 June 2012

QR NATIONAL

ABN: 14 146 335 622

These financial statements are the consolidated financial statements of the consolidated entity consisting of QR National Limited and its subsidiaries ("Group"). The financial statements are presented in Australian dollars.

QR National Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office is:

QR National Limited
Level 17
175 Eagle Street
BRISBANE, QLD 4000

A description of the nature of the consolidated entity's operations and its principal activities are included in the review of operations and activities and in the Directors' Report, which are not part of these financial statements.

The financial statements were authorised for issue by the Directors on 23 August 2012. The Directors have the power to amend and reissue the financial statements.

Through the use of the internet, we have ensured that our corporate reporting is timely and complete. All press releases, financial reports and other information are available at our Investor Centre on our website; **www.qrnational.com.au**.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2012

	Notes	2012 $m	2011[1] $m
Revenue from continuing operations	5	**3,504.0**	3,196.7
Other income	6	**130.1**	96.0
Consumables	7	**(1,400.1)**	(1,327.2)
Employee benefits expense	7	**(1,132.7)**	(1,220.5)
Depreciation and amortisation expense	7	**(463.7)**	(457.2)
Other expenses	7	**(41.9)**	(62.8)
Finance costs	7	**(41.5)**	(141.2)
Share of net profit of associates and joint venture partnership accounted for using the equity method		**0.1**	-
Profit before income tax		**554.3**	83.8
Income tax (expense)/benefit	8	**(113.4)**	277.1
Profit for the year		**440.9**	360.9

		Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic and diluted earnings per share	36	**18.1**	15.4

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2012

	Notes	2012 $m	2011[1] $m
Profit for the year		**440.9**	360.9
Other comprehensive income			
Changes in the fair value of cash flow hedges recognised in equity	25(a)	**(1.4)**	(2.3)
Changes in the fair value of cash flow hedges recognised in the income statement	25(a)	**1.8**	1.9
Income tax relating to components of other comprehensive income	8(c)	**(0.1)**	0.1
Other comprehensive income for the year, net of tax		**0.3**	**(0.3)**
Total comprehensive income for the year		**441.2**	**360.6**

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

(1) Refer to note 1(q) for explanations of retrospective adjustments recognised as a result of a change in accounting policy.

CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2012

	Notes	2012 $m	2011[1] $m
ASSETS			
Current assets			
Cash and cash equivalents	9	**98.8**	117.1
Trade and other receivables	10	**548.1**	473.5
Inventories	11	**215.8**	177.6
Derivative financial instruments	12	**0.1**	21.3
Other assets	13	**8.0**	10.6
Assets classified as held for sale	15	**8.7**	-
Total current assets		**879.5**	800.1
Non-current assets			
Derivative financial instruments	12	**-**	3.5
Inventories	11	**8.7**	20.7
Property, plant and equipment	15	**9,037.2**	8,325.2
Intangible assets	16	**16.6**	24.9
Investments accounted for using the equity method	14	**78.0**	0.5
Other financial assets	17	**-**	36.3
Other assets		**0.5**	-
Total non-current assets		**9,141.0**	8,411.1
Total assets		**10,020.5**	9,211.2
LIABILITIES			
Current liabilities			
Derivative financial instruments	12	**1.3**	27.3
Trade and other payables	19	**349.6**	310.2
Provisions	21	**371.4**	320.2
Other liabilities	22	**37.5**	36.2
Current tax liabilities		**7.9**	-
Total current liabilities		**767.7**	693.9
Non-current liabilities			
Derivative financial instruments	12	**2.0**	3.8
Provisions	21	**81.3**	81.3
Borrowings	20	**1,201.6**	803.2
Deferred tax liabilities	23	**363.5**	257.9
Other liabilities	22	**310.2**	344.7
Total non-current liabilities		**1,958.6**	1,490.9
Total liabilities		**2,726.3**	2,184.8
Net assets		**7,294.2**	7,026.4
EQUITY			
Contributed equity	24(b)	**6,119.1**	6,111.9
Reserves	25(a)	**(2.0)**	(2.3)
Retained earnings		**1,177.1**	916.8
Total equity		**7,294.2**	7,026.4

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

(1) Refer to note 1(q) for explanations of retrospective adjustments recognised as a result of a change in accounting policy.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2012

		Attributable to owners of QR National Limited			
	Notes	Contributed equity $m	Reserves $m	Retained profits $m	Total equity $m
Balance at 1 July 2010		2,067.0	(2.0)	619.0	2,684.0
Impact of change in accounting policy (net of tax)	1(q)	–	–	23.3	23.3
Restated total equity at the beginning of the financial year		**2,067.0**	**(2.0)**	**642.3**	**2,707.3**
Profit for the year as reported in 2011 financial statements		–	–	349.5	349.5
Impact of change in accounting policy (net of tax)	1(q)	–	–	11.4	11.4
Restated profit for the year		–	–	360.9	360.9
Other comprehensive income		–	(0.3)	–	(0.3)
Total comprehensive income for the year		**–**	**(0.3)**	**360.9**	**360.6**
Transactions with owners in their capacity as owners:					
Capital distribution to Queensland Rail Limited	24(c)	(332.3)	–	–	(332.3)
Capital distribution to State of Queensland	24(c)	(23.0)	–	–	(23.0)
Capital contribution from State of Queensland	24(b)	4,397.3	–	–	4,397.3
Dividends provided for or paid	26(a)	–	–	(86.4)	(86.4)
Share-based payments	24(b)	2.9	–	–	2.9
		4,044.9	–	(86.4)	3,958.5
Balance at 30 June 2011		**6,111.9**	**(2.3)**	**916.8**	**7,026.4**
Balance at 1 July 2011		6,111.9	(2.3)	916.8	7,026.4
Profit for the year		–	–	440.9	440.9
Other comprehensive income		–	0.3	–	0.3
Total comprehensive income for the year		**–**	**0.3**	**440.9**	**441.2**
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	26(a)	–	–	(180.6)	(180.6)
Share-based payments	24(b)	7.2	–	–	7.2
Balance at 30 June 2012		**6,119.1**	**(2.0)**	**1,177.1**	**7,294.2**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2012

	Notes	2012 $m	2011(1) $m
Cash flows from operating activities			
Receipts from customers		**3,884.3**	3,665.8
Interest received		**2.5**	3.2
Payments to suppliers and employees		**(2,881.7)**	(2,847.1)
Interest and other costs of finance paid		**(80.7)**	(234.5)
Income taxes paid		**–**	(2.3)
Net cash inflow from operating activities	35	**924.4**	585.1
Cash flows from investing activities			
Payments for acquisition of business, net of cash acquired	32	**–**	(12.3)
Proceeds from sale of property, plant and equipment		**45.8**	21.3
Payments for property, plant and equipment		**(1,156.3)**	(1,352.0)
Payments for investment in associates		**(41.2)**	–
Payments for available-for-sale financial assets		**–**	(0.5)
Proceeds from sale of business		**–**	2.1
Net cash (outflow) from investing activities		**(1,151.7)**	(1,341.4)
Cash flows from financing activities			
Proceeds from borrowings		**390.0**	1,423.3
Repayment of borrowings		**–**	(471.2)
Dividends paid to Company's shareholders	26(a)	**(180.6)**	(86.4)
Net cash inflow from financing activities		**209.4**	865.7
Net (decrease) increase in cash and cash equivalents		**(17.9)**	109.4
Cash and cash equivalents at the beginning of the financial half-year		**116.7**	7.3
Cash and cash equivalents at end of year	9	**98.8**	116.7

Given the short-term nature of the drawdowns and repayments, cash flows in relation to the Syndicated Debt Facility (effective from November 2010) are presented on a net basis in the cash flows from financing activities.

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

(1) Refer to note 1(q) for explanations of retrospective adjustments recognised as a result of a change in accounting policy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of QR National Limited ("the company") and its subsidiaries, and together are referred to as the "Group" or "QR National".

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. QR National Limited is a for-profit entity for the purpose of preparing the financial statements.

The financial statements were approved for issue by the Directors on 23 August 2012. The Directors have the power to amend and reissue the financial statements.

(i) Compliance with IFRS

The consolidated financial statements of the Group also comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

(ii) New and amended standards adopted by the Group

The Group adopted a number of Australian Accounting Standards and Interpretations which were mandatory for annual reporting periods beginning on or after 1 July 2011. There has been no effect on the financial performance or position of the Group from the adoption of these standards and interpretations.

(iii) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and liabilities (including derivative instruments) at fair value.

(iv) Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Group as at reporting date, and the results of all subsidiaries for the year then ended.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group, and deconsolidated from the date that control ceases. Transactions between continuing and discontinued operations are treated as external from the date the operation was discontinued.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20 % and 50 % of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill identified on acquisition. Details of investment in associates are set out in note 30(d).

The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised as reduction in the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(iii) Joint ventures

Jointly controlled assets or operations

Where the Group has jointly controlled assets or operations, the proportionate interests in the assets, liabilities, revenues and expenses of a joint venture activity are incorporated in the financial statements under the appropriate headings. Details of joint venture operations and jointly controlled assets are set out in note 30(a) and (b).

Joint venture entities

Where the Group has an interest in a joint venture entity, the interest is accounted for using the equity method, after initially being recognised at cost. Under the equity method, the share of the profits or losses of the joint venture entity is recognised in the income statement, and the share of post-acquisition movements in reserves is recognised in other comprehensive income. Details of joint venture entities are set out in note 30(c).

Profits or losses on transactions establishing the joint venture entity, and transactions with the joint venture, are eliminated to the extent of the Group's ownership interest, until such time as they are realised by the joint venture entity on consumption or sale. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Leadership Team ("ELT").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

1 Summary of significant accounting policies (continued)

(d) Foreign currency and commodity transactions

(i) Functional and presentation currency

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

(ii) Transactions and balances

Where the Group is exposed to the risk of fluctuations in foreign exchange rates and commodity prices, it enters into financial arrangements to reduce this exposure. While the value of these financial instruments is subject to risk that market rates/prices may change subsequent to acquisition, such changes will generally be offset by opposite effects on the items being hedged.

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

Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within finance costs. All other foreign exchange gains and losses are presented in the income statement on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities, such as equities held at fair value through profit or loss, is recognised in profit or loss as part of the fair value gain or loss, and translation differences on non-monetary assets, such as equities classified as available-for-sale financial assets, are recognised in other comprehensive income.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates, and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity, and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction, and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

(i) Services revenue

Services revenue comprises revenue earned from the provision of the following services:

- Track access
- Freight transport
- Other services revenue.

The Group also has operations that provide construction and engineering services that are substantially internal to the Group and eliminate on consolidation.

Track access

Access revenue generated from the regulated rail network Central Queensland Coal Network ("CQCN") is recognised as services are provided, and is calculated on a number of operating parameters such as the tonnage hauled, and applied to regulator-approved tariffs. The tariff is determined by the total maximum allowable revenue, applied to the regulatory approved annual tonnage forecast.

Where annual actual tonnages railed are less than the annual tonnage forecast, an annual take or pay mechanism may become operative. A variable component of take or pay may also be applied where tonnage forecasts do not meet certain consecutive monthly thresholds. The take or pay portion of access revenue is recognised in the year the contractual railings were not achieved.

In addition, access revenue is subject to a revenue cap mechanism that serves to ensure the network recovers its maximum allowable revenue over the regulatory period, such that where actual tonnages railed are less than the regulatory approved tonnage forecast, the revenue shortfall (net of take or pay) is recovered in subsequent years, and conversely, where actual tonnages railed are greater, the excess revenue received is refunded through the access tariffs in subsequent years. The majority of under or over recovery in access tariffs (net of take or pay charges) are recognised as revenue in the second year following the period in which the contractual railings were not achieved in accordance with the regulatory framework.

Freight transport

Revenue from freight transport services is calculated based on the rates agreed with customer on a tonnes per delivery basis, either by way of long-term contract or on an ad-hoc basis. Revenue is recognised once the service has been provided.

In some circumstances, the Group is able to recover extra charges where the revenue receivable (based on tonnage hauled and agreed price) falls below minimum levels under contractual arrangements with customers. These additional revenues include Deficit Tonnage Charges ("DTC"). Recognition of DTC revenue is considered on a contract-by-contract basis, and generally recognised in the period following that in which the service was due to be provided (where the customer elects to pay the charges rather than to reduce future tonnage entitlements).

Other services revenue

Revenue includes Transport Service Contract ("TSC") payments received from Queensland Department of Transport and Main Roads for some specific rail and road-based regional freight services and livestock transportation services. Base amounts receivable under the TSC (regional freight and livestock) are recognised on a straight-line basis over the term of the contract. Additional payments are recognised when the revenue can be measured reliably on a 'stage of completion' basis over the term of the agreement. Refer to note 5 for details related to TSC revenue recognised in the financial statements.

(ii) Other revenue

Revenue from other service works is recognised by reference to the contractual entitlement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

1 Summary of significant accounting policies (continued)

(e) Revenue recognition (continued)

(ii) Other revenue (continued)

Access facilitation deeds for mine-specific infrastructure

The Group builds mine-specific infrastructure for customers and provides access to those clients under access facilitation deeds. In substance, charges under the deeds comprise capital charges and interest charges (where the Group finances the assets). The capital charges are recognised on a straight-line basis over the term of the access facilitation deed, while the interest charges are accrued in accordance with the contractual terms of the access facilitation deed arrangements. Where the customer prepays the future charges, the amounts received are recognised as deferred income and recognised within income, on a straight-line basis over the term of the access facilitation deed.

Liquidated damages

Liquidated damages occur when contractors fail to meet the key performance indicators set out in their contract with the Group. Income resulting from claims for liquidated damages is recognised as other income when all performance obligations are met (including when a contractual entitlement exists), it can be reliably measured (including the impact of the receipt, if any, on the underlying asset's carrying value) and it is probable that the economic benefits will flow to the Group.

(f) Other income

(i) Disposal of assets

The gain or loss on disposal of assets is recognised at the date the significant risks and rewards of ownership of the asset passes to the buyer, usually when the purchaser takes delivery of the assets. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal and is recognised as other income or expenses in the income statement.

(ii) Interest income

Interest income is recognised using the effective interest method.

(iii) Government grants

Grants from the government are recognised at their fair value, where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred, and recognised in the income statement over the period necessary to match those with the costs that they are intended to compensate.

(iv) Dividends

Dividends are recognised as revenue when the right to receive payment is established.

(v) Fuel Rebates

Fuel rebates are recognised as revenue during the period in which they relate.

(g) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted for the changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted (or substantively enacted) at the end of the reporting period in the countries where the Group's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns, with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period, and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences, and it is probable that the differences will not reverse in the foreseeable future.

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

To the extent that an item is recognised directly in equity, the deferred tax is also recognised directly in equity.

(h) Leases

Leases on property, plant and equipment

Leases of property, plant and equipment, where the Group, as lessee, has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the leases inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period, so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Rental revenue from operating leases where the Group is a lessor is recognised as income on a straight-line basis over the lease term. Where a sale and lease-back transaction has occurred, the lease is classified as either a finance lease or operating lease, based on the factors described above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

1 Summary of significant accounting policies (continued)

(h) Leases (continued)

Cross-border leases

The cross-border lease arrangement does not, in substance, involve a lease. The arrangement involves transferring the legal title of the rollingstock to the lessor, but the Group retains the risk and rewards incidental to ownership of the rollingstock and enjoys substantially the same rights to its use as before the arrangement. Under the cross-border lease arrangement, the rollingstock cannot be sold without the consent of the lessor. The rollingstock is depreciated based on its estimated useful life, as the Group intends to re-acquire the legal title of these assets. Benefits received from the cross-border lease arrangement are recognised as income at the inception of the arrangement.

Where it is necessary under the cross-border lease provisions to terminate part or all of a lease due to damaged or disposed leased assets, and there is a difference between the value of the owned asset and the termination cost of the leased asset, the net book value of the damaged asset is recognised in the income statement as loss (or gain) on disposal, and termination costs incurred are recognised in the income statement as other expenses.

(i) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred, and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement, and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree, either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired, is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value, with changes in fair value recognised in profit or loss.

(j) Impairment of assets

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

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows, largely independent of the cash flows from other assets or groups of assets (cash-generating units).

The recoverable amount is the greater of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised in the income statement. After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset is adjusted in future periods, to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life. Impairment losses, if any, recognised in respect of cash-generating units, are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units, and then, to reduce the carrying amount of other assets in the unit on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other non-financial assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Cash and cash equivalents

For the purpose of presentation in the statement of cash flow, cash and cash equivalents include cash on hand, deposits held 'at call' with financial institutions, and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(l) Trade and other receivables

Trade and other receivables are recognised initially at fair value, and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables generally have credit terms ranging from seven to 31 days. They are presented as current assets, unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due, according to the original terms of the receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the income statement within other expenses. When a trade or other receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

1 Summary of significant accounting policies (continued)

(m) Inventories

Inventories include items held in centralised stores, workshops, and infrastructure and rollingstock depots, and are stated at the lower of cost and net realisable value. Cost comprises the cost of purchase, cost of conversion, and other costs incurred in bringing the inventories to its present location and condition. Cost is determined predominantly on an average cost basis.

Items expected to be consumed after more than one year are classified as non-current.

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

(n) Investments and other financial assets

Classification

The Group classifies its non-derivative financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, and 'available-for-sale' financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are expected to be settled within 12 months, otherwise they are classified as non-current.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period, which are classified as non-current assets. Loans and receivables are included in trade and other receivables (note 10) in the balance sheet.

(iii) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long-term.

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade date being the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are reclassified to the income statement as gains or losses from investment securities.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through the income statement, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through the income statement are expensed in the income statement.

Loans and receivables are subsequently carried at amortised cost using the effective interest method. Available-for-sale financial assets are subsequently carried at fair value. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity, unless they are impaired.

The Group assesses at each reporting date whether there is objective evidence that a financial asset (or group of financial assets) are impaired. A financial asset (or a group of financial assets) is impaired and impairment losses are incurred only if there is objective evidence of impairment, as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset (or group of financial assets) that can be reliably estimated. In the case of securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired.

Assets carried at amortised cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced, and the amount of the loss is recognised, in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

Assets classified as available-for-sale

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss) is removed from equity and recognised in the income statement. Impairment losses on equity instruments that are recognised in the income statement are not reversed through the income statement in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

1 Summary of significant accounting policies (continued)

(o) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

The Group designates certain derivatives as hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions ("cash flow hedges").

At inception, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that is used in hedging transactions have been, and will continue to be, highly effective in offsetting future cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months: It is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

(i) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement in other income or expense.

Amounts accumulated in equity are reclassified to the income statement to consumables in the periods when the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset, the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost or carrying amount of the asset.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement in consumables. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to the income statement.

(ii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement in other income or expense.

(iii) Embedded derivatives

Through the Group's purchase and sale contracts, it is possible that embedded derivatives have been entered into. An embedded derivative will cause some or all of the cash flows of the purchase or sale contract (i.e. the host contract) to be modified by reference to a variable, such as a foreign exchange rate or a commodity price.

Embedded derivatives are separated from the host contract and accounted for as a stand-alone derivative if the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract.

(p) Property, plant and equipment

(i) Methodology for valuation of fixed assets

Buildings, plant and equipment, and rollingstock

Buildings, plant and equipment, and rollingstock are carried at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the asset or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction. Cost may also include interest and transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment, and may include capitalised interest.

Land

Land is carried at cost. As the Transport Infrastructure Act 1994 stipulates that corridor land is owned by the State, only non corridor land owned by the Group is recorded in the financial statements. Ownership of corridor land is with the Department of Environment and Resource Management, on behalf of the State. This land is leased to the Department of Transport and Main Roads and subsequently sub leased to QR Network Pty Ltd under two separate subleases, each with a rental of $1.00 per year if demanded. The subleases each expire on 30 June 2109.

The land subleases will automatically be renewed for a period of 99 years if the infrastructure leases are renewed for that period (refer leased coal infrastructure below).

Leased property, plant and equipment

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership, are classified as finance leases. Assets held under finance leases are recorded at the lower of the net present value of the minimum lease payments or the fair value of the leased asset at the inception of the lease. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss on an effective interest rate basis.

Owned infrastructure

Infrastructure assets are transferred from Assets under construction once fully constructed and available for use. They are carried at cost and represent capitalised expenditures that are directly related to capital projects and may include materials, labour and equipment, in addition to an allocable portion of indirect costs that clearly relate to a particular project that will provide future economic benefit and remain within the control of the Group.

Leased coal infrastructure

Coal infrastructure assets are owned by (a) the State, with respect to the Central Queensland Coal Network and (b) Queensland Rail, with respect to the North Coast Line (each referred to as the Infrastructure Lessors). Under each infrastructure lease, the infrastructure is leased to QR Network Pty Ltd, a controlled entity. The term of each of the leases is 99 years (at a peppercorn rate of $1 per year), unless the Infrastructure Lessor exercises an option to extend its lease for a further 99 years. The notice period for the Infrastructure Lessor to renew or allow expiry of the lease is not less than 20 years prior to the end of the 99 year term. To the extent that the lease expires at the end of 99 years, the Infrastructure Lessor will pay QR Network Pty Ltd the fair market value of the infrastructure assets, including the infrastructure existing on commencement of the lease, as well as any railway assets added during the lease term as are reasonably required to enable the infrastructure to be operated as a fully functioning railway network. As the assets are not considered to be providing a public service, the Group's economic interest in the assets is accounted for as property, plant and equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

1 Summary of significant accounting policies (continued)

(p) Property, plant and equipment (continued)

(i) Methodology for valuation of fixed assets (continued)

Assets under construction

Assets under construction represents the cost of fixed assets currently under construction and includes the cost of all materials used in construction, direct labour, site preparation, interest, foreign currency gains and losses incurred where applicable, and an appropriate proportion of variable and fixed overheads.

Costs of assets under construction are only capitalised when it is probable that future economic benefits associated with the asset will flow to the Group and the costs can be measured reliably.

(ii) Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the income statement during the reporting period in which they are incurred.

(iii) Depreciation and amortisation

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

Buildings, infrastructure, rollingstock, plant and equipment are depreciated using the straight-line method to allocate their costs, net of their residual values, over their estimated useful lives. Motor vehicles are depreciated using the diminishing value basis (percentages range from 13.6% to 35.0%). Land and assets under construction are not depreciated.

Assets controlled by the Group under finance leases are amortised over the useful lives of the assets. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

Where assets have separately identifiable components that are subject to regular replacement, these components are assigned useful lives distinct from the asset to which they relate. Any expenditure that increases the originally assessed capacity or service potential of an asset is capitalised, and the new depreciable amount is depreciated over the remaining life of the asset.

The Group builds mine-specific infrastructure for customers and provides access to those clients under access facilitation deeds. Infrastructure controlled by the Group under these deeds is depreciated over the term of the deed, except where economic benefits are expected to flow to the Group after the end of the term of the deed.

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

– Owned and leased infrastructure, including:	
Tracks	30–45 years
Track turnouts	20–25 years
Ballast	8–20 years
Civil works	20–100 years
Bridges	50–100 years
Electrification	20–50 years
Field signals	15–40 years
– Buildings	10–40 years
– Rollingstock, including:	8–40 years
Locomotives	25–35 years
Wagons	25–35 years
– Plant and equipment	3–20 years
– Leased property	3–40 years

The depreciation and amortisation rates are reviewed annually and adjusted if appropriate, refer note 2(iv). An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised in the income statement.

(q) Voluntary change in accounting policy

The financial statements have been prepared on the basis of a retrospective application of a voluntary change in accounting policy relating to mechanised Ballast undercutting.

Ballast is the layer of crushed rock or gravel upon which the railway track is laid and ballast undercutting is the renewal of this ballast that supports the track.

The new ballast undercutting accounting policy is to capitalise all mechanised ballast undercutting costs as separate identifiable assets with a useful life of 8 years (20 years for spur line).

The previous accounting policy was to charge ballast undercutting expenditure against the profit and loss as incurred. The new accounting policy was adopted on 1 July 2011 and has been applied retrospectively from 1 September 2008 onwards, as it was not practicable to apply for periods prior to 1 September 2008.

The revised policy will now align with global industry practice and hence makes benchmark comparisons with industry peers more relevant and meaningful.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

1 Summary of significant accounting policies (continued)

(q) Voluntary change in accounting policy (continued)

The tables below show the impact of the change in accounting policy:

	30 June 2011 $m	Increase/ (Decrease) $m	30 June 2011 (Restated) $m	30 June 2010 $m	Increase/ (Decrease) $m	30 June 2010 (Restated) $m
Consolidated balance sheet (extract)						
Property, plant and equipment	8,275.7	49.6	8,325.2	7,383.8	33.3	7,417.0
Deferred tax liabilities	(463.5)	(14.9)	(478.4)	(693.3)	(10.0)	(703.3)
Net assets	**6,991.7**	**34.7**	**7,026.4**	**2,684.0**	**23.3**	**2,707.3**
Retained earnings	882.1	34.7	916.8	619.0	23.3	642.3
Total equity	**6,991.7**	**34.7**	**7,026.4**	**2,684.0**	**23.3**	**2,707.3**

Balance sheet items, other than those mentioned above, were not affected by the change in accounting policy.

30 June 2011	2011 $m	Profit Increase/ (Decrease) $m	2011 (Restated) $m
Consolidated income statement (extract)			
Depreciation and amortisation expense	(446.4)	(10.8)	(457.2)
Consumables	(1,358.0)	30.8	(1,327.2)
Other expenses	(60.7)	(2.1)	(62.8)
Other income	97.6	(1.6)	96.0
Profit before income tax	67.5	16.3	83.8
Income tax (expense)/benefit	282.0	(4.9)	277.1
Profit for the year	349.5	11.4	360.9

Basic and diluted earnings per share for the prior year have also been restated. The amount of the adjustment for both basic and diluted earnings per share was an increase of 0.5 cents per share.

The impact of the change in accounting policy on the current year is as follows:

30 June 2012	Before voluntary change in policy $m	Increase/ (Decrease) $m	2012 $m
Consolidated balance sheet (extract)			
Property, plant and equipment	9,022.2	15.0	9,037.2
Deferred tax liabilities	(534.1)	(4.5)	(538.6)
Net assets	**7,283.7**	**10.5**	**7,294.2**
Retained earnings	1,166.6	10.5	1,177.1
Total equity	**7,283.7**	**10.5**	**7,294.2**

Balance sheet items, other than those mentioned above, were not affected by the change in accounting policy.

30 June 2012	Before voluntary change in policy $m	Profit Increase/ (Decrease) $m	2012 $m
Consolidated income statement (extract)			
Depreciation and amortisation expense	(447.6)	(16.1)	(463.7)
Consumables	(1,434.8)	34.7	(1,400.1)
Other expenses	(38.3)	(3.6)	(41.9)
Profit before income tax	539.3	15.0	554.3
Income tax (expense)/benefit	(108.9)	(4.5)	(113.4)
Profit for the year	430.4	10.5	440.9

The change in accounting policy has resulted in both the basic and diluted earnings per share increase by 0.4 cents per share.

(r) Intangible assets

(i) Goodwill

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

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units (or groups of cash-generating units) that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

1 Summary of significant accounting policies (continued)

(r) Intangible assets (continued)

(ii) IT development and software

Software (mainly comprising the SAP development costs) has a finite useful life and is carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method over the estimated useful life which varies from 3 to 11 years.

(iii) Key customer contracts

Key customer contracts have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method over the useful life, which varies from 3 to 6 years.

(iv) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits, and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life.

(s) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year, which are unpaid. The amounts are unsecured and are usually paid within 30 days or within the terms set by the supplier. Trade and other payables are presented as current liabilities. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(t) Borrowings and borrowing costs

(i) Borrowings

Debt is drawn from a syndicated debt arrangement and is initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost, using the effective interest rate method.

Interest costs are calculated using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. Interest is accrued monthly and paid on maturity. Commitment and agency fees are accrued monthly and paid quarterly.

Syndicated facility establishment costs have been capitalised and are amortised over the life of the facility.

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

(ii) Borrowing costs

Borrowing costs which are directly attributable to the acquisition, construction or production of a material qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. A qualifying asset is an internally funded asset that necessarily takes a substantial period of time to be prepared for its intended use or sale. The rate used to determine the amount of borrowing costs to be capitalised is the interest rate applicable to the Group's outstanding borrowings during the year. Other borrowing costs are expensed.

(u) Provisions

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

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

In accordance with Group's environmental sustainability policy, and applicable legal and constructive obligations, a provision for land rehabilitation in respect of contaminated land is recognised when an obligation for rehabilitation is identified.

(v) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and leave loading are recognised as current liabilities. These liabilities are in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled plus related on-costs.

(ii) Other long-term employee benefit obligations

Liabilities for long-service leave, where employees have completed the required period of service, or are entitled to pro-rata payments, are recognised as current liabilities. The remaining unvested liabilities are included as non-current liabilities.

The liability for long-service leave is measured using the present value of the expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future non-current payments are discounted using market yields at the reporting date on Commonwealth government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(iii) Retirement allowance

Retirement allowance is payable to employees who fulfil the following requirements:

- Employees who retire or who are paid according to a Voluntary Redundancy Scheme or Medical Separation;
- are not members of an accumulation super fund; and
- were employed prior to 1 February 1995.

Liabilities for retirement allowance for employees who have fulfilled these requirements are recognised as current liabilities. The remaining liabilities are included within employee benefits and recognised as non-current liabilities. The non-current liability for retirement allowance is measured at the present value of expected future payments to be made in respect of services provided by qualifying employees. Consideration is given to expected future wage and salary levels, experience of the departure of qualifying employees and periods of service. Expected future payments are discounted using market yields at the reporting date on Commonwealth government bonds with maturities that match, as closely as possible, to the estimated future cash outflows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

1 Summary of significant accounting policies (continued)

(v) Employee benefits (continued)

(iv) Share-based payments

The fair value of rights granted under the Performance Rights Plan is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the rights granted, which includes any market performance conditions and the impact of any non-vesting conditions, but excludes the impact of any service and non-market performance vesting conditions.

Non-market vesting conditions are included in assumptions about the number of rights that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of rights that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

The Group settles the share-based compensation by making on-market purchases of the company's ordinary shares.

(v) Bonus plans

The Group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the Group and individual key performance indicators, including profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(vi) Sick leave

Sick leave is not provided for on the grounds that it is non-vesting and on average, no more than the annual entitlement is taken each year.

(vii) Superannuation

Contributions are expensed as they are made.

The Group pays an employer subsidy to the Government Superannuation Office in respect of employees who are contributors to the Public Sector Superannuation (QSuper) scheme.

Employer contributions to the QSuper Defined Benefit Fund are determined by the State of Queensland Treasurer, having regard to advice from the State Actuary. The primary obligation to fund the defined benefits obligations are that of the State. However, the Treasurer has the discretion to request contributions from employers that contribute to the defined benefit category of QSuper. No liability is recognised for accruing superannuation benefits, as this liability is held on a Whole of Government basis and reported in the Whole of Government financial statements. The State Actuary performs a full actuarial valuation of the assets and liabilities of the fund on a triennial basis. The latest valuation was completed as at 30 June 2010, and the State Actuary found the fund was in surplus from a Whole of Government perspective. In addition, from late 2007, the Defined Benefit Fund was closed to new members, so any potential future deficit would be diluted as membership decreases. Accordingly, no liability/asset is recognised for the Group's share of any potential deficit/surplus of the Super Defined Benefit Fund of QSuper.

The Group also makes superannuation guarantee payments into the QSuper Accumulation Fund (Non-Contributory) and QSuper Accumulation Fund (Contributory) administered by the Government Superannuation Office, and to other complying Superannuation Funds designated by employees nominating Choice of Fund.

(w) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity instruments, for example as the result of a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of QR National Limited as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included in equity attributable to the owners of QR National Limited.

(x) Dividends

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

(y) Earnings per share

(i) Basic earnings per share

Basic earnings per share are calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding, assuming the conversion of all dilutive potential ordinary shares.

(z) Goods and Services Tax ("GST")

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

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the balance sheet.

Cash flows are presented in the cash flow statement on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the ATO, are presented as operating cash flows.

QR National Limited and its subsidiaries are grouped for GST purposes. Therefore, any inter-company transactions within the Group do not attract GST.

(aa) Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Financial Report. Amounts in the Financial Report have been rounded off in accordance with that Class Order to the nearest hundred thousand dollars, unless otherwise indicated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

1 Summary of significant accounting policies (continued)

(ab) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods, and have not yet been applied in the financial statements. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 9 Financial Instruments, AASB 2009 11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. When adopted, the standard will affect, in particular the Group accounting for its available-for-sale financial assets, since *AASB 9* only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading.

There will be no impact on the Group accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss. The derecognition rules have been transferred from *AASB 139 Financial Instruments: Recognition and Measurement* and have not been changed. The Group does not intend to adopt the new standard before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

(ii) AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 *Separate Financial Statements and* AASB 128 *Investments in Associates and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* (effective 1 January 2013)

In August 2011, the Australian Accounting Standards Board (AASB) issued a suite of five new and amended standards, which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in *AASB* 127 *Consolidated and Separate Financial Statements*, and *Interpretation 12 Consolidation – Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. The Group does not expect the new standard to have a substantial impact on its composition.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or a joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. *AASB 11* also provides guidance for parties that participate in joint arrangements but do not share joint control. The Group does not expect the new standard to have any significant impact on its financial statements.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, *AASB 10* and *AASB 11*, and replaces the disclosure requirements currently found in *AASB 128*. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's investments.

AASB 127 is renamed *Separate Financial Statements* and is now a standard dealing solely with separate financial statements. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements.

Amendments to *AASB 128* provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a 'partial disposal' concept. There will be no impact on the Group's financial statements from these amendments.

The Group does not intend to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

(iii) AASB 13 Fair Value Measurement and *AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13* (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The Group does not use fair value measurements extensively. It is therefore unlikely that the new rules will have a significant impact on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the consolidated financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

(iv) Revised *AASB 119 Employee Benefits, AASB 2011-10 Amendments to Australian Accounting Standards* arising from *AASB 119* (September 2011) and *AASB 2011-11 Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements* (effective 1 January 2013)

In September 2011, the AASB released a revised standard on accounting for employee benefits. It requires the recognition of all remeasurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in profit or loss. The standard also introduces a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits. It also changes the distinction between short and long-term benefits for measurement purposes, to be based on when payment is expected to be made, not when payment can be demanded. Since QR National Limited does not have any defined benefit obligations, the amendments are not expected to have any significant impact on the Group's financial statements. The Group does not intend to adopt the new standard before their operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

1 Summary of significant accounting policies (continued)

(ab) New accounting standards and interpretations (continued)

(v) *AASB 2011-9 Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income* (effective 1 July 2012)

In September 2011, the AASB made an amendment to AASB 101 Presentation of Financial Statements which requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The group intends to adopt the new standard from 1 July 2012.

(vi) *AASB 2012-3 Amendments to Australian Accounting Standard - Offsetting Financial Assets and Financial Liabilities and AASB 2012-2 Disclosures - Offsetting Financial Assets and Financial Liabilities* (effective 1 January 2014 and 1 January 2013 respectively)

In June 2012, the AASB approved amendments to the application guidance in *AASB 132 Financial Instruments:* Presentation, to clarify some of the requirements for offsetting financial assets and financial liabilities in the balance sheet. These amendments are effective from 1 January 2014. They are unlikely to affect the accounting for any of the entity's current offsetting arrangements. However, the AASB has also introduced more extensive disclosure requirements into *AASB 7* which will apply from 1 January 2013. When they become applicable, the Group will have to provide a number of additional disclosures in relation to its offsetting arrangements. The Group intends to apply the new rules for the first time in the financial year commencing 1 July 2013.

(vii) *AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective 1 July 2013)

In July 2011, the AASB removed the individual Key Management Personnel disclosure requirements from *AASB 124 Related Party Disclosures*, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the Corporations Act 2001. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. The Corporations Act requirements in relation to remuneration reports, will remain unchanged for now, but these requirements, are currently subject to review and may also be revised in the near future.

(ac) Parent entity financial information

The financial information for the parent entity, QR National Limited, disclosed in note 38, has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates, and joint-venture entities

Investments in subsidiaries, associates, and joint-venture entities are accounted for at cost in the financial statements of QR National Limited. Dividends received from associates are recognised in the parent entity's income statement, rather than being deducted from the carrying amount of these investments.

(ii) Tax consolidation legislation

QR National and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation with effect from 22 November 2010. All Australian wholly-owned companies in the QR National Limited Group are part of the tax consolidated group and are therefore taxed as a single entity. The head entity of the tax consolidated group is QR National Limited. The Group has notified the Australian Taxation Office that it has formed a tax consolidated group, applying from 22 November 2010.

The head entity, QR National Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

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

The entities have also entered into a tax funding agreement which sets out the funding obligations of members of the tax consolidated group in respect of income tax amounts. The tax funding arrangements require payments to the head entity equal to the current tax liability assumed by the head entity. In addition, the head entity is required to make payments equal to the current tax asset or deferred tax asset arising from unused tax losses and tax credits assumed by the head entity from a subsidiary member.

These tax funding arrangements result in the head entity recognising a current inter-entity receivable/payable equal in amount to the tax liability/ asset assumed.

(iii) Employee benefits – share-based payments

The grant by the Company of rights over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

2 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed over page.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

2 Critical accounting estimates and judgements (continued)

(i) Impairment

The Group considers annually whether there has been any indicators of impairment and then tests whether non-current assets, including goodwill, have suffered any impairment, in accordance with the accounting policy stated in note 1(j). The recoverable amounts of cash generating units have been determined based on value in use calculations, or fair value less costs to sell. These calculations require the use of assumptions. Refer to note 15 and 16 for further details on the carrying amounts of non-current assets subject to impairment testing.

(ii) Employee benefits

The determination of the provisions required is dependent on specific assumptions, including expected wage increases, length of employee service, and bond rates. Refer to note 21 for further information.

(iii) Taxation

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

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These, in turn, depend on estimates of future sales volumes, operating costs, capital expenditure and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty; hence, there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet, and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may then require adjustment, resulting in a corresponding credit or charge to the income statement.

Refer to notes 18 and 23 for carrying amounts of deferred tax assets and deferred tax liabilities respectively.

(iv) Depreciation

Management estimates the useful lives and residual values of property, plant and equipment based on the expected period of time over which economic benefits from use of the asset will be derived. Management reviews useful life assumptions on an annual basis, having given consideration to variables, including historical and forecast usage rates, technological advancements and changes in legal and economic conditions. Refer to note 1(p) for details of current depreciation rates used.

Revision of useful lives of plant and equipment

During the year, the useful lives of rollingstock were adjusted upwards from 25 to 30 years to more accurately reflect the useful lives of these assets, as part of a management review (refer to note 1p(iii)). There has also been a reduction in the value ascribed to the initial overhaul component of rollingstock used within the Coal and Freight businesses. The overhaul component is depreciated over a useful life of 15 years. The change in accounting estimate has been applied with effect from 1 July 2011. The net effect of these changes for the year ended 30 June 2012 was a decrease in depreciation expense for the Group of $36.5 million. Assuming the assets are held until the end of their estimated useful lives, depreciation expensed will decrease by $36.5 million next financial year, however, the life over which depreciation is recognised will be extended.

The revised useful lives have been adopted following a detailed review and analysis of the current fleet, taking into consideration current and forecast operating statistics, detailed history of maintenance costs and overhaul profile.

(v) Take or pay

The calculation of 'take or pay' is based on an assessment of access charges from contracted railings that have not been achieved, subject to an adjustment for QR Network Pty Ltd ("below rail") cause. Below rail cause is based on information on below rail versus operator/mine cancellations in the relevant year. The estimate of 'take or pay' is based on management's judgement of below rail cause and is recognised in the year in which the contractual railings have not been achieved.

(vi) Strategic infrastructure projects

During the period, work continued on various significant infrastructure projects in relation to above and below rail development. For the year ended 30 June 2012, $42.3 million (2011: $nil) of costs were capitalised. Management's judgement has been applied to the extent to which capitalisation of these projects is appropriate. The application of this judgement will be re-assessed throughout the life of the projects.

These projects have significantly advanced since the half-year report, which includes announcements by the State of Queensland in respect of the rail corridor, announcements by the Group of a 25 mtpa expansion of the Goonyella to Abbot Point rail line, as well as customer announcements of joint agreements in respect of progressing the feasibility of those projects.

3 Financial risk management

The Group has exposure to a variety of financial risks, including market risk (foreign exchange risk, interest rate risk and fuel price risk), credit risk and liquidity risk. The Board approved Treasury Policy addresses the management of these risks using various financial instruments. Trading for speculation is strictly prohibited. Compliance with the Policy is monitored on an ongoing basis through regular reporting to the Board.

(a) Market risk

Market risk is the risk that adverse movements in fuel price, foreign exchange, interest rates and equity prices will increase costs and negatively impact the Group's income or the value of its holdings of financial instruments. The Group measures market risk using cash flow at risk. The objective of risk management is to manage the market risks inherent in the business to protect profitability and return on assets.

(i) Foreign exchange risk

Exposure to foreign exchange risk

Foreign exchange risk arises from the purchase of capital equipment and operating expenditure (primarily fuel expenses) that are denominated in or related to a currency that is not the entity's functional currency. These transactions apply in large part to the US Dollar ("USD") and the Euro ("EUR").

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in AUD, was as follows:

	2012		2011	
	USD $m	EUR $m	USD $m	EUR $m
Cash and cash equivalents	**1.1**	**0.1**	1.2	0.2
Trade receivables	**–**	**–**	0.8	–
Net forward exchange contracts	**(8.8)**	**(5.1)**	(75.2)	(2.3)
Net exposures	**(7.7)**	**(5.0)**	(73.2)	(2.1)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

3 Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

Risk management

In order to protect against foreign exchange movements, the Group enters into forward foreign exchange contracts. These contracts are hedging highly probable forecast foreign currency exposures. Such contracts are designated as cash flow hedges. Realised gains or losses on these contracts arise due to differences between the spot rates on settlement and the forward rates of the derivative contracts.

During the year, the net realised loss arising from foreign exchange hedging activities for the Group was $16.3 million (2011: loss of $15.4 million) as a result of the AUD appreciating above the average hedged rate. Of this net amount, a realised loss of $9.3 million (2011: loss of $17.2 million) represents the effective portion of the hedges which has been recognised in the relevant expenditure category which the contract was hedging or capitalised to a project, and a realised loss of $7.0 million (2011: gain of $1.8 million) represents the ineffective portion of hedges and non designated derivatives, which has been recognised in other expenses.

(ii) Fuel price risk

Exposure to fuel price risk

Fuel price risk arises on the Group's exposure to fuel prices, predominately Gasoil.

Risk management

In order to protect against adverse fuel price movements, the Group enters into commodity swap contracts. These contracts are hedging highly probable forecast fuel consumption. Realised gains and losses on these contracts arise due to differences between the actual fuel prices on settlement and the forward price of the derivative contract.

During the year, the net realised gain arising from fuel hedging activities for the Group was $9.9 million (2011: gain of $3.0 million) as a result of actual fuel prices moving higher than the average hedged price. Of this net amount, a realised gain of $6.0 million (2011: $3.5 million) represents the effective portion of the hedges which has been recognised in diesel expense, and a realised gain of $3.9 million (2011: loss of $0.5 million) represents the ineffective portion of the hedges which has been recognised in other expenses.

As at the reporting date, both fuel commodity and fuel foreign exchange hedging derivatives were closed out due to the reduction in fuel at risk as a result of the shift to new form contracts.

(iii) Equity securities price risk

The Group was exposed to equity securities price risk in the prior period through its investment in an unlisted equity trust which is classified as an available-for-sale investment. In the current period, the investment has been classified as an associate following the acquisition of an additional 18 % interest in the unit trust (refer to note 14). An increase/decrease of 10 % to the valuation of property owned by the unlisted entity in which securities are held would increase equity/decrease profit before tax by $nil (2011: $3.6 million).

(iv) Interest rate risk

Exposure to interest rate risk

The Group holds both interest bearing assets and interest bearing liabilities, and therefore the Group's income and operating cash flows are subject to changes in market interest rates.

The Group's main interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

At the reporting date, the interest rate profile of the Group's interest bearing financial instruments was:

	30 June 2012		30 June 2011	
	Weighted average interest rate %	Balance $m	Weighted average interest rate %	Balance $m
Bank overdrafts and bank loans	**5.4%**	**1,220.0**	6.7 %	830.0
Interest rate swaps	**3.6%**	**(500.0)**	–	–
Net exposure to cash flow interest rate risk		**720.0**		830.0

Risk management

In order to protect against adverse interest rate movements, the Group enters into derivative contracts.

During the year, the net realised gain arising from interest rate hedging activities for the Group was $1.5 million (2011: nil) as a result of market interest rates closing higher than the average hedged rate. The total realised gain represents the effective portion of the hedges which has been recognised in interest expense.

The Group accounts for financial assets at fair value through profit or loss, and financial liabilities at amortised cost using the effective interest method.

(v) Sensitivity on foreign exchange, fuel price and interest rate risk

The following table summarises the gain/(loss) impact of reasonably possible changes in market risk, relating to existing financial instruments, on net profit and equity before tax. For the purpose of this disclosure, the following assumptions were used:

- 15 % (2011: 15 %) appreciation/depreciation of the AUD against the USD;
- 40 % (2011: 40 %) increase/decrease in the price of fuel;
- 100 basis points increase/decrease in interest rates;
- Sensitivity analysis assumes hedge designations and effectiveness test results as at 30 June 2012 remain unchanged;
- Sensitivity analysis is isolated for each risk assuming all other variables remain constant; and
- Sensitivity analysis on foreign currency rates and fuel indices represent current market conditions.

	Profit (before tax)		Equity (before tax)	
	2012 $m	2011 $m	2012 $m	2011 $m
15% movement in foreign currency rates				
15 % USD depreciation	**0.2**	1.0	**2.4**	9.5
15 % USD appreciation	**(0.1)**	(0.7)	**(1.8)**	(7.0)
40% movement in fuel indices				
40 % decrease per barrel in fuel indices	**–**	(0.6)	**–**	(13.6)
40 % increase per barrel in fuel indices	**–**	0.6	**–**	13.6
100bps movement in interest rates				
100 bps decrease in interest rates				
borrowings	**10.9**	8.3	**–**	–
derivatives	**–**	–	**(4.2)**	–
100 bps increase in interest rates				
borrowings	**(10.9)**	(8.3)	**–**	–
derivatives	**–**	–	**4.2**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

3 Financial risk management (continued)

(b) Credit risk

Credit risk is managed on a group basis. Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises from cash and cash equivalents, derivative financial instruments, deposits with financial institutions and receivables from customers.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date, to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements. Credit risk further arises in relation to financial guarantees given to certain parties. Refer to note 3(d).

The Group does not have any material credit risk exposure to any single receivable (or group of receivables) under financial instruments entered into by the Group. For some trade receivables, the Group may also obtain security in the form of guarantees, deeds of undertaking, or letters of credit, which can be called upon if the counterparty is in default under the terms of the agreement. Refer to note 3(d) for further details.

The Group has policies in place to ensure that sales of services are only made to customers with an appropriate credit profile. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, the credit quality of the customer is assessed, taking into account its financial position, past experience and other factors.

Credit risk on cash transactions and derivative contracts is managed through the Board approved Treasury Policy, which restricts the Group to financial institutions whose long-term credit ratings, determined by a recognised ratings agency, are at or above the minimum rating of A-. This Policy also limits the amount of credit exposure to any one financial institution. The Group's net exposures and the credit ratings of its counterparties are regularly monitored.

The Group's available-for-sale equity securities held in the prior period were units in an unlisted property trust with an unrated counterparty, where the underlying investment was commercial property. The Group has policies in place to ensure that investments are made with counterparties with an appropriate credit history/low credit risk.

An analysis of the Group's trade and other receivables that have been impaired and the ageing of those that are past due but not impaired at the balance date is presented in note 10(b).

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in meeting the obligations associated with its financial liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, sufficient liquidity is available to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking damage to the Group's reputation.

Financing arrangements

The Group has access to undrawn borrowing facilities through its Syndicated Facility Agreement.

The total amount of credit unused as at 30 June 2012 was $1,775.0 million (2011: $2,170.0 million).

The Group also has a credit standby arrangement with the Commonwealth Bank of Australia in the form of a bank overdraft totalling $2.0 million (2011: $2.0 million).

The following table summarises the contractual timing of undiscounted cash flows including estimated interest payments, of financial liabilities and derivative instruments. The contractual amount assumes current interest rates and foreign exchange rates estimated using forward curves applicable at the end of the reporting period.

For cash flows relating to cash and cash equivalents, refer to note 9.

(c) Liquidity risk (continued)

2012	Less than 1 year $m	Between 1 and 5 years $m	Over 5 years $m	Total contractual cash flows $m	Carrying amount (assets)/ liabilities $m
Non-derivatives					
Non-interest bearing	349.6	–	–	349.6	349.6
Variable rate borrowings	60.2	1,254.6	–	1,314.8	1,201.6
Financial guarantees	54.1	–	–	54.1	–
Total non-derivatives	463.9	1,254.6	–	1,718.5	1,551.2
Derivatives					
Forward commodity derivatives used for hedging	–	–	–	–	–
Interest rate swaps used for hedging	(0.4)	(0.5)	–	(0.9)	2.4
Foreign exchange contracts used for hedging					0.8
- (inflow)	(11.3)	(2.6)	–	(13.9)	
- outflow	12.1	3.0	–	15.1	
Total derivatives	0.4	(0.1)	–	0.3	3.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

3 Financial risk management (continued)

(c) Liquidity risk (continued)

2011	Less than 1 year $m	Between 1 and 5 years $m	Over 5 years $m	Total contractual cash flows $m	Carrying amount (assets)/ liabilities $m
Non-derivatives					
Non-interest bearing	310.2	–	–	310.2	310.2
Variable rate borrowings	55.9	931.5	–	987.4	803.2
Financial guarantees	40.5	–	–	40.5	–
Total non-derivatives	**406.6**	**931.5**	**–**	**1,338.1**	**1,113.4**
Derivatives					
Forward commodity derivatives used for hedging					
Interest rate swaps used for hedging	(7.3)	(2.7)	–	(10.0)	(10.0)
Foreign exchange contracts used for hedging					16.3
- (inflow)	(80.3)	(12.4)	–	(92.7)	
- outflow	96.2	16.0	–	112.2	
Total derivatives	**8.6**	**0.9**	**–**	**9.5**	**6.3**

(d) Fair value measurements

The net fair value of cash, cash equivalents and non interest bearing financial assets and liabilities approximates their carrying value due to their short maturity. The net fair value of other financial assets and liabilities is determined by valuing them at the present value of future contracted cash flows. Cash flows are discounted using standard valuation techniques at the applicable market yield, having regard to the timing of the cash flows.

The net fair value of forward foreign exchange and fuel contracts is determined as the unrealised gain/loss at balance date by reference to market exchange rates and fuel prices. The net fair value of interest rate swaps is determined as the present value of future contracted cash flows. Cash flows are discounted using standard valuation techniques at the applicable market yield, having regard to the timing of the cash flow.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2012

3 Financial risk management (continued)

(d) Fair value measurements (continued)

	Carrying amount 2012 $m	Carrying amount 2011 $m	Fair value 2012 $m	Fair value 2011 $m
Financial assets carried at fair value				
Forward exchange contracts	**0.1**	4.5	**0.1**	4.5
Interest rate swaps	–	–	–	–
Commodity swaps	–	20.3	–	20.3
	0.1	24.8	**0.1**	24.8
Financial assets carried at amortised cost				
Cash and cash equivalents	**98.8**	117.1	**98.8**	117.1
Trade and other receivables	**548.1**	473.5	**548.1**	473.5
	646.9	590.6	**646.9**	590.6
Financial assets available-for-sale				
Equity securities	–	36.3	–	36.3
	–	36.3	–	36.3
Financial liabilities carried at fair value				
Forward exchange contracts	**(0.9)**	(20.8)	**(0.9)**	(20.8)
Interest rate swaps	**(2.4)**	–	**(2.4)**	–
Commodity swaps	–	(10.3)	–	(10.3)
	(3.3)	(31.1)	**(3.3)**	(31.1)
Financial liabilities carried at amortised cost				
Trade and other payables	**(349.6)**	(310.2)	**(349.6)**	(310.2)
Borrowings	**(1,201.6)**	(803.2)	**(1,210.6)**	(856.2)
	(1,551.2)	(1,113.4)	**(1,560.2)**	(1,166.4)
Off-balance sheet Unrecognised financial assets				
Third party guarantees	–	–	**48.5**	50.5
Bank guarantees	–	–	**247.4**	203.8
Insurance company guarantees	–	–	**27.3**	25.2
Unrecognised financial liabilities	–	–	**(54.1)**	(40.5)
Bank guarantees	–	–	**269.1**	239.0

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

2012	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Derivative financial assets	–	**0.1**	–	**0.1**
Derivative financial liabilities	–	**(3.3)**	–	**(3.3)**
Net financial instruments measured at fair value	–	**(3.2)**	–	**(3.2)**

2011	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Derivative financial assets	–	24.8	–	24.8
Derivative financial liabilities	–	(31.1)	–	(31.1)
Available-for-sale financial assets	–	–	36.3	36.3
Net financial instruments measured at fair value	–	(6.3)	36.3	**30.0**

During the year, there were no transfers between Level 1 and Level 2 fair value hierarchies. Level 3 instruments comprise of unlisted equity securities which are no longer an available-for-sale instrument in the current period as it is now an investment in an associate following the acquisition of an additional 18 % interest in the unit trust (refer to note 14). The determination of the fair value of these available-for-sale securities in the prior period was calculated with reference to an independent valuation of the investment property trust.

4 Segment information

(a) Description of segments

Business Segments

The Group has determined operating segments based on the operating structure of the Group and the different reports reviewed by the Executive Leadership Team. The segments are based on the operational structure of the Group and the different products and services provided by each segment. The chief operating decision makers assess the performance of the operating segments based on the underlying earnings before interest and tax ("EBIT"). Amounts included in the report by the chief operating decision maker are in accordance with the Group's accounting policies.

Interest expense for the entire Group is not allocated to specific segments but rather recorded as a corporate expense. With the exception of property, plant and equipment, asset and liability positions of the Group are only reviewed at the consolidated level. All assets and revenues are located in or attributable to the provision of services within Australia.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

4 Segment information (continued)

(a) Description of segments (continued)
The following summary describes the operations in each of the Group's reportable segments:

Coal
Transport of coal from mines in Queensland and NSW to end customers and ports.

Freight
Transport of bulk mineral commodities (including iron ore), agricultural products, mining and industrial inputs and general freight throughout Queensland, New South Wales and Western Australia, and containerised freight throughout Australia.

Network Services
Provision of access to, and operation and management of the Central Queensland Coal Network.

Provision of design, construction, overhaul, maintenance and management service to the Group as well as external customers.

Unallocated
Items of revenue and expense of a corporate nature, as well as those relating to minor operations within the Group, and ineffective hedging gains and losses.

(b) Segment information

2012	Coal $m	Freight $m	Network Services $m	Unallocated $m	Total $m
Segment revenue					
Revenue from external customers					
Services revenue					
Track access	699.9	2.8	106.5	–	809.2
Freight transport	1,057.9	1,110.1	–	–	2,168.0
Other services	–	178.0	108.6	–	286.6
Other revenue	11.4	61.6	138.1	29.1	240.2
Total revenue from external customers	1,769.2	1,352.5	353.2	29.1	3,504.0
Intersegment revenue					
Services revenue					
Track access	–	–	637.6	–	637.6
Freight transport	21.1	103.1	–	–	124.2
Other services	–	–	221.9	–	221.9
Other revenue	–	–	–	97.6	97.6
Total intersegment revenue	21.1	103.1	859.5	97.6	1,081.3
Total revenue	1,790.3	1,455.6	1,212.7	126.7	4,585.3
Other income (note 6)	37.3	68.0	(2.6)	27.4	130.1
Total segment revenue and other income	**1,827.6**	**1,523.6**	**1,210.1**	**154.1**	**4,715.4**
Intersegment elimination					(1,081.3)
Consolidated revenue and other income					**3,634.1**
Segment result					
Underlying EBITDA	**441.2**	**172.8**	**527.2**	**(93.0)**	**1,048.2**
Depreciation and amortisation	(184.2)	(72.9)	(185.8)	(20.8)	(463.7)
Underlying EBIT	**257.0**	**99.9**	**341.4**	**(113.8)**	**584.5**
Significant adjustments (note 4(c))					8.8
EBIT					**593.3**
Net finance costs					(39.0)
Profit before income tax					**554.3**
Income tax (expense)/benefit					(113.4)
Profit for the year					**440.9**
Other segment information					
Property, plant and equipment	3,117.0	1,145.8	4,520.4	254.0	9,037.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

4 Segment information (continued)

(b) Segment information (continued)

2011[1]	Coal $m	Freight $m	Network Services $m	Unallocated $m	Total $m
Segment revenue					
Revenue from external customers					
Services revenue					
Track access	708.8	8.4	112.6	–	829.8
Freight transport	926.0	959.7	–	–	1,885.7
Other services	–	148.6	106.4	–	255.0
Other revenue	6.2	32.6	138.3	49.1	226.2
Total revenue from external customers	**1,641.0**	**1,149.3**	**357.3**	**49.1**	**3,196.7**
Intersegment revenue					
Services revenue					
Track access	–	–	590.4	–	590.4
Freight transport	14.4	71.7	–	–	86.1
Other services	–	–	211.3	–	211.3
Other revenue	–	–	20.8	106.3	127.1
Total intersegment revenue	14.4	71.7	822.5	106.3	1,014.9
Total revenue	1,655.4	1,221.0	1,179.8	155.4	4,211.6
Other income (note 6)	35.1	56.2	–	4.7	96.0
Total segment revenue and other income	**1,690.5**	**1,277.2**	**1,179.8**	**160.1**	**4,307.6**
Intersegment elimination					(1,014.9)
Consolidated revenue and other income					**3,292.7**
Segment result					
Underlying EBITDA	**368.9**	**89.2**	**465.8**	**(83.4)**	**840.5**
Depreciation and amortisation	(210.1)	(58.6)	(164.8)	(23.7)	(457.2)
Underlying EBIT	**158.8**	**30.6**	**301.0**	**(107.1)**	**383.3**
Significant adjustments (note 4(c))					(161.7)
EBIT					**221.6**
Net finance costs					(137.8)
Profit before income tax					**83.8**
Income tax (expense)/benefit					277.1
Profit for the year					**360.9**
Other segment information					
Property, plant and equipment	3,194.4	864.5	4,007.2	259.1	8,325.2

(1) Refer to note 1(q) for explanations of retrospective adjustments recognised as a result of a change in accounting policy. The amounts disclosed in this note are after these adjustments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

4 Segment information (continued)

(c) Significant adjustments

The group's underlying results differs from the statutory result. The exclusion of certain items permits a more appropriate and meaningful analysis of Group's underlying performance on a comparative basis. The significant adjustments for the current and prior year are:

	2012 $m	2011 $m
Employee benefits	–	54.7
Restructure costs	–	33.3
Voluntary redundancy schemes	–	62.7
Stamp duty	**(8.8)**	11.0
Total significant adjustments	**(8.8)**	161.7

2012

As noted below, New South Wales (NSW) stamp duty was triggered on 21 September 2010 with the interposing of QR National Limited as part of the pre IPO restructuring. At the time of interposing there were some uncertainties regarding whether NSW stamp duty should be payable in respect of only the land held by the Group in NSW or both the land and other assets (i.e. Rollingstock) held in NSW. QRN lodged an application with the NSW Office of State Revenue ("OSR") that stamp duty was only payable on the land, however at the time of the IPO, QRN raised a provision of $11.0 million on the assumption that OSR may impose stamp duty on both land and rollingstock. After review the OSR confirmed that stamp duty was only payable in respect of the land ($2.2 million). Accordingly, the remaining provision of $8.8 million has been released back to the income statement.

2011

The Group incurred $33.3 million of non-operating costs in respect of the restructuring and separation of the discontinued businesses, which were transferred to Queensland Rail, and in respect of the IPO. These costs comprise advisory and system separation costs incurred in respect of the restructure and the IPO.

Employee benefit expense of $54.7 million comprises the payment of $41.9 million to employees under enterprise agreements negotiated with union representatives, which provide for a one-off payment of $4,000 per eligible employee as at settlement; $9.0 million expense related to the Employee Gift Offer; and $3.8 million related to incentive schemes for management and employees in relation to the IPO.

A major voluntary redundancy scheme was completed in April 2011, with costs of $54.7 million. Additional redundancies during the year totalled $8.0 million.

NSW stamp duty was triggered on 21 September 2010 with the interposing of QR National Limited as part of the IPO restructuring. The Group recognised a provision of $11.0 million in relation to the stamp duty event.

(d) Customer disclosure

The nature of the Group's business is that it enters into long-term contracts with key customers. It also earns material revenues from the Queensland Government under various contractual and non-contractual arrangements. A customer from the Coal segment represents approximately $335.1 million (2011: $398.6 million) of the Group's total revenue.

5 Revenue

	2012 $m	2011 $m
Services revenue		
Track access	**809.2**	829.8
Freight transport	**2,168.0**	1,885.7
Other services revenue	**286.6**	255.0
Other revenue	**240.2**	226.2
	3,504.0	3,196.7

Included within the Freight transport revenue is $28.6 million (2011: $14.9 million) of Deficit Tonnage Charges.

Included in Track access is nil (2011: $26.1 million) of Revenue Cap recovered in year in relation to contractual railings that were not achieved in 2010.

Included in Other services is revenue from Transport Service Contracts (for Regional Freight and Livestock Transport Services) from the State of Queensland of $177.9 million (2011: $148.3 million) including $33.0 million (2011: nil) of accrued additional payments earned through meeting performance criteria under the contract.

6 Other income

	2012 $m	2011[(1)] $m
Net gain on disposal of property, plant and equipment	**16.2**	–
Fair value gains on financial assets at fair value through profit or loss	**0.6**	–
Foreign exchange gains (net)	**0.1**	–
Fuel rebates	**97.8**	90.2
Interest revenue	**2.5**	3.3
Stamp duty release of provision	**8.8**	–
Other income	**4.1**	2.5
	130.1	96.0

(1) Refer to note 1(q) for explanations of retrospective adjustments recognised as a result of a change in accounting policy. The amounts disclosed in this note are after these adjustments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

7 Expenses

	2012 $m	2011[(1)] $m
Profit/(loss) before income tax includes the following specific expenses:		
Consumables		
Repairs and maintenance	**290.2**	277.4
Track access	**371.4**	383.6
Energy and fuel	**429.9**	359.8
Other	**308.6**	306.4
Total consumables	**1,400.1**	1,327.2
Employee benefits expenses		
Defined benefit superannuation expense	**21.0**	23.2
Defined contribution superannuation expense	**64.0**	60.1
Voluntary redundancies and ex-gratia payments	**14.9**	64.9
IPO related incentives	**–**	54.7
Salaries, wages and allowances	**686.9**	725.8
Other employment expenses including on-costs	**345.9**	291.8
Total employee benefit expense	**1,132.7**	1,220.5
Depreciation and amortisation expense		
Depreciation		
Buildings	**12.3**	12.5
Plant and equipment	**45.1**	48.0
Rollingstock	**198.1**	202.6
Infrastructure	**67.3**	61.1
Total depreciation	**322.8**	324.2
Amortisation		
Leased property	**2.3**	0.7
Leased rollingstock	**19.3**	31.1
Leased infrastructure	**101.1**	83.3
Plant and equipment under finance leases	**0.1**	0.1
Total amortisation	**122.8**	115.2
Total depreciation and amortisation of property, plant and equipment (note 15)	**445.6**	439.4
Other amortisation		
Software	**16.3**	16.5
Customer contracts	**1.8**	1.3
Total amortisation (note 16)	**18.1**	17.8
Total depreciation and amortisation expense	**463.7**	457.2

	2012 $m	2011[(1)] $m
Other expenses		
Rental expense relating to leases	**18.9**	19.3
Inventory obsolescence	**2.9**	2.4
Research & development	**0.1**	0.3
Losses on derivatives at fair value through profit or loss	**1.1**	6.4
Loss on sale of asset	**–**	2.1
Impairment losses - financial assets		
Trade receivables	**0.7**	0.6
Impairment/devaluation of non-current assets		
Property, plant and equipment	**–**	2.2
Stamp duty	**0.2**	11.0
Other expenses	**18.0**	18.5
Total other expenses	**41.9**	62.8
Finance costs		
Interest and finance charges paid/payable	**88.6**	183.2
Provisions: unwinding of discount	**(1.7)**	(0.6)
Total finance costs	**86.9**	182.6
Amount capitalised to qualifying assets (a)	**(45.4)**	(41.4)
Total finance costs	**41.5**	**141.2**

(a) Capitalised borrowing costs

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year of 6.10 % (2011: 7.37 %).

(1) Refer to note 1(q) for explanations of retrospective adjustments recognised as a result of a change in accounting policy. The amounts disclosed in this note are after these adjustments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2012

8 Income tax expense

(a) Income tax expense

	2012 $m	2011[1] $m
Current tax	**7.9**	–
Deferred tax	**138.8**	9.2
Deferred tax base reset on consolidation and privatisation	**(33.3)**	(290.3)
Prior period adjustments	**–**	4.0
	113.4	(277.1)
Income tax (benefit)/expense is attributable to:		
Profit/(loss) from continuing operations	**113.4**	(277.1)
Deferred income tax (revenue) expense included in income tax expense/(benefit) comprises:		
Decrease (increase) in deferred tax assets (note 18)	**45.3**	(56.2)
Increase (decrease) in deferred tax liabilities (note 23)	**60.2**	(224.9)
	105.5	(281.1)

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

	2012 $m	2011[1] $m
Profit before income tax expense	**554.3**	83.8
Tax at the Australian tax rate of 30% (2011: 30%)	**166.3**	25.1
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Entertainment	**0.2**	0.1
Research and development	**(6.0)**	(2.5)
Tax base reset on consolidation and privatisation (note 8(f))	**(33.3)**	(290.3)
Non-assessable income	**(7.7)**	(16.6)
Stamp duty on business restructure/ acquisition of subsidiary	**(2.7)**	3.3
Share-based payments	**–**	2.8
Other	**(3.4)**	(3.0)
Prior period adjustments	**–**	4.0
Total income tax expense/(benefit)	**113.4**	(277.1)

(c) Tax expense (income) relating to items of other comprehensive income

	2012 $m	2011 $m
Cash flow hedges	**0.1**	(0.1)

(1) Refer to note 1(q) for explanations of retrospective adjustments recognised as a result of a change in accounting policy. The amounts disclosed in this note are after these adjustments.

(d) Tax privatisation legislation

Entities within the Group exited the State administered National Tax Equivalents Regime upon privatisation on 22 November 2010. At the same time, QR National Limited and its wholly-owned Australian subsidiaries entered the Federal Tax Regime.

(e) Tax consolidation

QR National Limited and its wholly-owned Australian subsidiaries have implemented the tax consolidation legislation as of 22 November 2010. All Australian wholly-owned companies in the QR National Limited Group are part of the tax consolidated group and are therefore taxed as a single entity. The Group has notified the ATO that it has formed a tax consolidated group, applying from 22 November 2010.

(f) Tax base reset

During the year ended 30 June 2011, as a consequence of the privatisation of QR National Limited and the proposed election to consolidate its wholly-owned Australian subsidiaries under the Australian tax consolidation regime, the Group reset the tax base of its assets and liabilities as required by the specific privatisation tax rules and the tax consolidation regime. This resulted in an initial assessment of the net tax benefit of $290.3 million at 30 June 2011. At 30 June 2012, this net tax benefit upon privatisation has been reassessed to $323.6 million, and as a result, an additional income tax benefit of $33.3 million has been recognised in the year ended 30 June 2012.

Government review of rights to future income legislation

Included in the $323.6 million net tax benefit upon privatisation is a benefit of $126.8 million relating to valuable customer contracts that can be deducted for tax purposes over an average life of seven years under rights to future income legislation. On 30 March 2011, the Assistant Federal Treasurer requested that the Board of Taxation review the application of the rights to future income rules, including the possibility of retrospective law changes, and make recommendations to the Government. The Board of Taxation has reported on its finding to the Government and the Government has enacted amending legislation to the rights to future income rules with retrospective effect from 1 July 2002. The amended legislation has not significantly impacted QR National's tax claim under these provisions. This is because QR National's claim arose after the original legislation was enacted but prior to the Government's announcement to review the legislation.

(g) Tax sharing agreement

The entities within the QR National Limited tax consolidated group have entered into a tax sharing agreement which limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity.

9 Cash and cash equivalents

	2012 $m	2011 $m
Cash on hand	**–**	0.1
Cash at bank	**98.8**	116.6
Trust monies	**–**	0.4
Total cash and cash equivalents	**98.8**	**117.1**
Less: Trust monies	**–**	(0.4)
Balance as per cash flow statement	**98.8**	**116.7**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

10 Trade and other receivables

	2012 $m	2011 $m
Current		
Trade receivables	**384.5**	368.4
Provision for impairment of receivables (note (a))	**(2.9)**	(2.2)
Net trade receivables	**381.6**	366.2
Other receivables	**166.5**	105.2
Coal network access undertaking receivables	**–**	2.1
	548.1	473.5

Other receivables include revenue for services performed but not yet invoiced under contracts including TSC, Take or Pay, and insurance receivables.

(a) Impaired trade receivables

As at 30 June 2012, the amount of the provision for impaired trade receivables was $2.9 million (2011: $2.2 million).

Movements in the provision for impairment of receivables are as follows:

	2012 $m	2011 $m
At 1 July	**2.2**	4.5
Provision for impairment recognised during the year	**1.3**	1.0
Receivables written off during the year as uncollectable	**0.0**	(1.4)
Unused amounts reversed	**(0.6)**	(1.9)
At 30 June	**2.9**	2.2

The creation or release of the provision for impaired receivables has been included in the income statement. Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected these amounts will be received when due.

(b) Past due but not impaired

As at 30 June 2012, trade receivables of $59.1 million (2011: $37.6 million) were past due but not impaired. The ageing of these trade receivables is as follows:

	2012 $m	2011 $m
Up to 3 months	**48.4**	33.9
3 to 6 months	**5.1**	2.5
More than 6 months	**5.6**	1.2
	59.1	37.6

11 Inventories

	2012 $m	2011 $m
Current		
Raw materials and stores - at cost	**204.0**	162.1
Work in progress - at cost	**11.8**	15.5
	215.8	177.6

	2012 $m	2011 $m
Non-current		
Raw materials and stores - at cost	**14.1**	24.2
Provision for inventory obsolescence	**(5.4)**	(3.5)
Inventory at lower of cost or net realisable value	**8.7**	20.7

a) Inventory expense

Inventory recognised as expense during the year ended 30 June 2012 amounted to $707.4 million (2011: $709.9 million). Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2012 amounted to $1.9 million (2011: $2.0 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2012

12 Derivative financial instruments

	2012 $m	2011 $m
Current assets		
Forward exchange contracts - cash flow hedges	**0.1**	–
Forward exchange contracts - at fair value through profit or loss	**–**	4.3
Commodity contracts - at fair value through profit or loss	**–**	10.8
Commodity contracts - cash flow hedges	**–**	6.2
Total current derivative financial instrument assets	**0.1**	21.3
Non-current assets		
Forward exchange contracts - at fair value through profit or loss	**–**	0.2
Commodity contracts - at fair value through profit or loss	**–**	0.8
Commodity contracts - cash flow hedges	**–**	2.5
Total non-current derivative financial instruments assets	**–**	3.5
Total derivative financial instrument assets	**0.1**	24.8
Current liabilities		
Forward exchange contracts - cash flow hedges	**0.7**	10.2
Forward exchange contracts - at fair value through profit or loss	**–**	7.8
Commodity contracts - at fair value through profit or loss	**–**	9.3
Interest rate swap contracts - cash flow hedges	**0.6**	–
Total current derivative financial instrument liabilities	**1.3**	27.3

	2012 $m	2011 $m
Non-current liabilities		
Forward exchange contracts - cash flow hedges	**0.2**	1.9
Forward exchange contracts - at fair value through profit or loss	**–**	1.0
Commodity contracts - at fair value through profit or loss	**–**	0.9
Interest rate swap contracts - cash flow hedges	**1.8**	–
Total non-current derivative financial instrument liabilities	**2.0**	3.8
Total derivative financial instrument liabilities	**3.3**	31.1

(a) Instruments used by the group

The Group holds derivative financial instruments to hedge (including economically hedge) its foreign currency, interest rate and fuel price risk exposures in accordance with the Group's financial risk management policy (refer to note 3).

13 Other assets

	2012 $m	2011 $m
Current		
Prepayments	**8.0**	10.6
	8.0	10.6

14 Investments accounted for using the equity method

	2012 $m	2011 $m
Shares in associates (refer note 30(d))	**77.5**	–
Interest in joint ventures (refer note 30(c))	**0.5**	0.5
	78.0	0.5

During the year the Group acquired a further 18 % interest in Moorebank Industrial Property Trust (unlisted entity) for $41.1 million taking its stake to 33 %. Following the acquisition of the additional equity, the investments have been classified as an investment in an associate. In the prior year, these were classified as other financial assets in note 17.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2012

15 Property, plant and equipment

	Assets under construction $m	Land $m	Leased property $m	Build-ings $m	Plant and equipment $m	Rolling-stock $m	Leased infra-structure $m	Leased rolling-stock $m	Leased plant and equipment $m	Infra-structure $m	Total $m
2012											
Opening net book amount	1,365.7	182.9	5.6	302.9	275.3	2,978.6	1,776.9	197.7	0.6	1,239.0	8,325.2
Additions	1,166.0	–	1.2	0.2	15.3	–	–	–	–	18.9	1,201.6
Transfers between asset classes	(2,107.5)	1.6	5.2	56.4	41.9	492.8	109.9	(2.8)	–	1,393.2	(9.3)
Disposals	–	(2.7)	–	(0.9)	(9.0)	(10.4)	–	(2.8)	–	(3.8)	(29.6)
Impairment reversal	2.1	–	–	–	1.6	0.0	–	(0.1)	–	0.0	3.6
Assets classified as held-for-sale	–	(6.5)	–	–	–	(2.2)	–	–	–	–	(8.7)
Depreciation/ amortisation expense	–	0.0	(2.3)	(12.3)	(45.1)	(198.1)	(101.1)	(19.3)	(0.1)	(67.3)	(445.6)
Closing net book amount	426.3	175.3	9.7	346.3	280.0	3,260.7	1,785.7	172.7	0.5	2,580.0	9,037.2
Cost	426.3	175.3	14.6	460.2	528.0	4,496.8	2,182.3	336.3	0.8	2,825.4	11,446.0
Accumulated depreciation and impairment losses	–	0.0	(4.9)	(113.9)	(248.0)	(1,236.1)	(396.6)	(163.6)	(0.3)	(245.4)	(2,408.8)
Net book amount	426.3	175.3	9.7	346.3	280.0	3,260.7	1,785.7	172.7	0.5	2,580.0	9,037.2
2011(1)											
Opening net book amount	811.8	182.4	3.4	225.5	275.1	2,529.0	1,554.3	304.0	–	1,531.5	7,417.0
Additions	1,283.3	1.6	1.4	1.4	28.1	19.0	–	–	–	36.3	1,371.1
Transfers between asset classes	(729.4)	1.6	2.2	87.7	31.2	636.5	305.9	(74.5)	0.7	(263.6)	(1.7)
Disposals	–	(2.7)	(0.7)	(0.3)	(11.1)	(3.3)	–	(0.7)	–	(4.1)	(22.9)
Impairment reversal	–	–	–	1.1	–	–	–	–	–	–	1.1
Depreciation/ amortisation expense	–	–	(0.7)	(12.5)	(48.0)	(202.6)	(83.3)	(31.1)	(0.1)	(61.1)	(439.4)
Closing net book amount	1,365.7	182.9	5.6	302.9	275.3	2,978.6	1,776.9	197.7	0.6	1,239.0	8,325.2
Cost	1,365.7	182.9	8.2	405.3	516.7	4,039.5	2,046.7	372.6	0.8	1,444.7	10,383.1
Accumulated depreciation and impairment losses	–	–	(2.6)	(102.4)	(241.4)	(1,060.9)	(269.8)	(174.9)	(0.2)	(205.7)	(2,057.9)
Net book amount	1,365.7	182.9	5.6	302.9	275.3	2,978.6	1,776.9	197.7	0.6	1,239.0	8,325.2

(1) Refer to note 1(q) for explanations of retrospective adjustments recognised as a result of a change in accounting policy. The amounts disclosed in this note are after these adjustments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2012

15 Property, plant and equipment (continued)

(a) Non-current assets pledged as security

Leased rollingstock assets of $172.7 million (2011: $197.7 million) have been pledged as security under the terms of the cross border lease arrangements.

16 Intangible assets

	Goodwill $m	Software $m	Key customer contracts $m	Total $m
2012				
Opening net book amount	0.3	21.5	3.1	24.9
Additions	–	–	0.5	0.5
Disposals	–	–	0.0	0.0
Transfers	–	9.3	–	9.3
Amortisation expense	–	(16.3)	(1.8)	(18.1)
Closing net book amount	0.3	14.5	1.8	16.6
Cost	73.3	107.2	9.3	189.8
Accumulation amortisation and impairment	(73.0)	(92.7)	(7.5)	(173.2)
Net book amount	0.3	14.5	1.8	16.6
2011				
Opening net book amount	–	36.5	2.9	39.4
Acquisition of business	0.3	–	–	0.3
Additions	–	0.1	1.5	1.6
Disposals	–	(0.3)	–	(0.3)
Transfers	–	1.7	–	1.7
Amortisation expense	–	(16.5)	(1.3)	(17.8)
Closing net book amount	0.3	21.5	3.1	24.9
Cost	73.3	98.4	8.8	180.5
Accumulated amortisation and impairment	(73.0)	(76.9)	(5.7)	(155.6)
Net book amount	0.3	21.5	3.1	24.9

17 Other financial assets

	2012 $m	2011 $m
Unlisted equity securities	–	36.3

During the year the Group exercised its pre-emptive rights to acquire additional equity in the Moorebank Industrial Property Trust (MIPT) for $41.1 million, taking its stake to 33 %.

Following the acquisition of additional equity, the investments have been classified as investment in an associate in note 14.

18 Deferred tax assets

	2012 $m	2011 $m
The balance comprises temporary differences attributable to:		
Provisions/accruals	**70.5**	45.7
Tax losses	**–**	37.5
Customer contracts	**91.4**	116.1
Unearned revenue	**2.9**	3.1
Cash flow hedges	**1.0**	9.3
Other temporary differences	**9.3**	8.8
	175.1	220.5
Set-off of deferred tax liabilities pursuant to set-off provisions (note 23)	**(175.1)**	(220.5)
Net deferred tax assets	**–**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

18 Deferred tax assets (continued)

Movements	Provisions/ accruals $m	Tax losses $m	Customer contracts $m	Unearned revenue $m	Cash flow hedges $m	Other $m	Total $m
At 30 June 2010	111.9	41.0	–	3.3	0.9	7.1	164.2
(Charged)/credited							
– to profit or loss	27.0	31.3	(19.6)	2.7	9.1	4.2	54.7
– to profit or loss as a result of consolidation and privatisation	(93.2)	(34.8)	135.7	(2.9)	(0.8)	(2.5)	1.5
– to other comprehensive income	–	–	–	–	0.1	–	0.1
At 30 June 2011	45.7	37.5	116.1	3.1	9.3	8.8	220.5
At 30 June 2011	45.7	37.5	116.1	3.1	9.3	8.8	220.5
(Charged)/credited							
– to profit or loss	24.3	(37.5)	(15.8)	(0.2)	(8.2)	(0.1)	(37.5)
– to profit or loss as a result of consolidation and privatisation	0.5	–	(8.9)	–	–	0.6	(7.8)
– to other comprehensive income	–	–	–	–	(0.1)	–	(0.1)
At 30 June 2012	70.5	–	91.4	2.9	1.0	9.3	175.1

19 Trade and other payables

	2012 $m	2011 $m
Trade payables	**313.5**	280.1
Other payables	**36.1**	30.1
	349.6	310.2

20 Borrowings

	2012 $m	2011 $m
Non-current - Unsecured		
Syndicated debt facility	**1,220.0**	830.0
Capitalised borrowing costs	**(18.4)**	(26.8)
Total unsecured non-current borrowings	**1,201.6**	803.2

The Group entered into a $3,000 million Syndicated Facility Agreement on 7 October 2010, with the first draw down of the facility in November 2010. A syndicate of lenders have provided $1,425 million in a facility expiring in December 2013 and $1,575 million in facilities expiring in December 2015.

The Syndicated Debt Facility imposes certain covenants on the Group to ensure that certain financial ratios are met, and restricts the amount of security that the Group and its subsidiaries can provide over their assets in certain circumstances.

21 Provisions

	2012 $m	2011 $m
Current		
Employee benefits (a)	**325.8**	295.2
Provision for insurance claims (b)	**20.0**	12.0
Litigation and workers' compensation provision (c)	**24.0**	11.0
Decommissioning/make good and other provisions (d)	**1.6**	2.0
Total current provisions	**371.4**	320.2
Non-current		
Employee benefits (a)	**25.6**	23.4
Litigation and workers' compensation claim (c)	**15.5**	20.0
Decommissioning/make good and other provisions (d)	**4.0**	3.5
Land rehabilitation (e)	**36.2**	34.4
Total non-current provisions	**81.3**	81.3
Total provisions	**452.7**	401.5

(a) Employee benefits

	2012	2011
Annual leave	**89.3**	85.2
Long service leave	**193.0**	173.9
Other	**69.1**	59.5
	351.4	318.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

21 Provisions (continued)

(a) Employee benefits (continued)
The current provision for employee benefits includes accrued annual leave, leave loading, retirement allowances, long service leave and bonus accrual. Included in long service leave are all unconditional entitlements where employees have completed the required period of service and also a provision for the chance that employees will reach the required period of service. The entire amount of the provision is presented as current, since the Group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The current provision for employee benefits includes an amount of $197.5 million (2011:$155.2 million) that is not expected to be taken or paid within the next 12 months.

Other employee benefit liabilities includes payroll tax and retirement allowances.

(b) Provision for insurance claims
The provision for insurance claims is raised for insurance claims external to the Group and represents the aggregate deductible component in relation to loss or damage to property, plant and equipment and rollingstock.

(c) Litigation and workers' compensation
A provision of $39.5 million (2011: $31.0 million) is made for the estimated liability for workers' compensation and litigation claims. Claims are assessed separately for common law, statutory and asbestos claims. The outstanding liability is determined after factoring future claims inflation and discounting future claim payments. Estimates are made based on the average number of claims and average claim payments over a specified period of time. Claims Incurred But Not Reported ("IBNR") are also included in the estimate. Claims are expected to be paid over a period exceeding more than one year.

(d) Decommissioning/make good and other provisions
A provision of $4.9 million (2011: $3.6 million) has been made for the anticipated costs of the future restoration of leased office premises. Make good requirements vary for different properties. The provision includes future cost estimates associated with the restoration of office fixtures and fittings to original condition; removal of all property and equipment to return the premises to a vacant shell, and making good any damage caused by their removal; and repairing and making good any damage which may be caused to land adjoining the premises as a result of carrying out structural work or other improvements. The provision has been calculated based on recent comparable make good costs or independent assessments.

A provision of $0.7 million (2011: $1.9 million) has been made for onerous lease contracts which represent the net unavoidable costs in meeting the obligations under property leases over the remaining lease terms.

(e) Land rehabilitation
A provision of $36.2 million (2011: $34.4 million) has been recognised for the estimated costs to remediate contaminated land in accordance with the Group's constructive obligations following the Board's review of its revised sustainability policy at 30 June 2010. The provision is based on an estimated long-term inflation rate in the order of 3.2 % (2011: 4.5 %). The projected remediation dates for the various sites ranges from 10 to 40 years. To measure the present value of the estimated costs, a discount rate in the order of 4.5 % (2011: 5.7 %) was used, based on the interest rate which reflects the maturity profile of the liability.

(f) Movements in provisions
Movements in each class of provision during the financial year, other than employee benefits, are set out below:

2012	Provision for insurance claims $m	Litigation and workers compensation provision $m	Decommissioning/ make good and other provision $m	Provision for land rehabilitation $m	Total $m
Current and non-current					
Carrying amount at start of the year	12.0	31.0	5.5	34.4	82.9
Charged/(credited) to profit or loss					
– Additional provision recognised	18.1	21.1	1.0	0.1	40.3
– Unused amounts released or reversed	–	–	(0.3)	–	(0.3)
– Charged/(credited) to the profit or loss - unwinding of discount	–	–	–	1.7	1.7
Amounts used during the year	(10.1)	(12.6)	(0.6)	–	(23.3)
Carrying amount at end of year	20.0	39.5	5.6	36.2	101.3
2011					
Carrying amount at start of year	–	28.5	4.2	34.7	67.4
Charged/(credited) to profit or loss					
– Additional provision recognised	13.9	12.7	2.6	0.3	29.5
– Unused amounts released or reversed	(1.9)	(1.2)	–	–	(3.1)
– Increase/(decrease) in discounted amount arising from passage of time and effect of any change in the discount rate	–	–	–	(0.6)	(0.6)
Amounts used during the year	–	(9.0)	(1.3)	–	(10.3)
Carrying amount at end of year	12.0	31.0	5.5	34.4	82.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

22 Other liabilities

Current	2012 $m	2011 $m
Income received in advance	**36.9**	36.0
Other current liabilities	**0.6**	0.2
	37.5	36.2
Non-current		
Income in advance	**291.5**	314.6
Other non-current liabilities	**18.7**	30.1
	310.2	344.7

Income received in advance represents amounts received from customers as prepayment of future rentals under agreements of customer specific infrastructure. These amounts are deferred and earned over the term of the agreement.

Other non-current liabilities include a $17.1 million (2011:$26.4 million) non-interest bearing loan with a former subsidiary, On Track Insurance Pty Ltd.

23 Deferred tax liabilities

	2012 $m	2011[1] $m
The balance comprises temporary differences attributable to:		
Property, plant and equipment	**399.9**	416.7
Capitalised deductible expenditure	**100.5**	32.4
Consumables and spares	**16.7**	14.3
Accrued income	**12.4**	1.5
Cash flow hedges	**–**	7.5
Other temporary difference	**9.1**	6.0
Total deferred tax liabilities	**538.6**	478.4
Set-off of deferred tax assets pursuant to set-off provisions (note 18)	**(175.1)**	(220.5)
Net deferred tax liabilities	**363.5**	257.9

Movements	Property, plant and equipment $m	Capitalised deductible expenditure $m	Consumables and spares $m	Accrued income $m	Cash flow hedges $m	Other $m	Total $m
At 1 July 2010	629.7	10.0	20.9	50.8	(1.1)	(7.0)	703.3
Charged/(credited)							
– to profit or loss	19.2	58.5	27.3	(46.9)	8.6	(2.9)	63.8
– to profit or loss as result of consolidation and privatisation	(232.2)	(36.1)	(33.9)	(2.4)	–	15.9	(288.7)
At 30 June 2011	416.7	32.4	14.3	1.5	7.5	6.0	478.4
At 1 July 2011	416.7	32.4	14.3	1.5	7.5	6.0	478.4
Charged/(credited)							
– to profit or loss	22.5	68.1	2.8	10.9	(7.4)	4.5	101.4
– to profit or loss as result of consolidation and privatisation	(39.3)	–	(0.4)	-	(0.1)	(1.4)	(41.2)
At 30 June 2012	399.9	100.5	16.7	12.4	-	9.1	538.6

(1) Refer to note 1(q) for explanations of retrospective adjustments recognised as a result of a change in accounting policy. The amounts disclosed in this note are after these adjustments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

24 Contributed equity

(a) Issued capital

	2012 Shares '000	2011 Shares '000	2012 $m	2011 $m
Ordinary shares				
Fully paid	**2,440,000**	2,440,000	**1,711.7**	1,711.7

(b) Other contributed equity

	2012 $m	2011 $m
Share-based payments	**10.1**	2.9
Capital contributions from the State on retirement of borrowings	**4,388.3**	4,388.3
Capital contribution from the State for employee gift shares	**9.0**	9.0
	4,407.4	4,400.2
Total contributed equity	**6,119.1**	6,111.9

(c) Movements in ordinary share capital

Date	Details	Number of shares ('000)	$m
1 July 2010	Opening balance	3,792,757	2,067.0
31 August 2010	Capital distribution to Queensland Rail	–	(332.3)
21 September 2010	Change in legal capital structure from QR Limited to QR National Limited	(3,792,757)	–
6 October 2010	Capital distribution on disposal of OTI pursuant to Transfer Notice	–	(23.0)
6 October 2010	Share split	2,440,000	–
30 June 2011	Closing balance	2,440,000	1,711.7
30 June 2012	Closing balance	2,440,000	1,711.7

(d) Ordinary shares

Ordinary shares have no par value and the Group does not have a limited amount of authorised capital. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

(e) Share-based payments

Share-based payments represent the fair value of share-based remuneration provided to employees.

(f) Capital risk management

The Group's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group and the parent entity monitor its capital structure by reference to its gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt. There were no changes in the Group's approach to capital management during the year.

	2012 $m	2011[(1)] $m
Total borrowings	**1,201.6**	803.2
Less: cash and cash equivalents	**(98.8)**	(117.1)
Net debt	**1,102.8**	686.1
Total equity	**7,294.2**	7,026.4
Total capital	**8,397.0**	7,712.5
Gearing ratio	**13%**	9 %

The Group has complied with externally imposed capital debt covenants.

25 Reserves

(a) Reserves

	2012 $m	2011 $m
Hedging reserve – cash flow hedges	**(2.0)**	(2.3)
	(2.0)	(2.3)
Movements:		
Hedging reserve - cash flow hedges		
Balance 1 July	**(2.3)**	(2.0)
Fair value (losses) taken to equity	**(1.4)**	(2.3)
Deferred tax	**0.4**	0.7
Fair value losses transferred to profit or loss	**1.8**	1.9
Deferred tax	**(0.5)**	(0.6)
Balance 30 June	**(2.0)**	(2.3)

(b) Nature and purpose of reserves

Hedging reserve - cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised in other comprehensive income, as described in note 1(o). Amounts are recognised in the income statement when the associated hedged transaction affects the income statement.

(1) Refer to note 1(q) for explanations of retrospective adjustments recognised as a result of a change in accounting policy. The amounts disclosed in this note are after these adjustments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

26 Dividends

(a) Ordinary shares

	2012 $m	2011 $m
Interim dividend for the year ended 30 June 2012 of 3.7 cents per share (2011: nil), paid 30 April 2012 (unfranked)	**90.3**	–
Final dividend for the year ended 30 June 2011 of 3.7 cents per share, paid September 2011 (unfranked)	**90.3**	–
Special dividend for the period to 21 September 2010 of 3.54 cents per fully paid share, paid November 2010 (unfranked)	**–**	86.4
	180.6	86.4

(b) Dividends not recognised at the end of the reporting period

	2012 $m	2011 $m
Since 30 June 2012, the Directors have declared the payment of a final dividend of 4.6 cents per fully paid ordinary share (2011:3.7 cents), unfranked. The aggregate amount of the proposed dividend expected to be paid on 28 September 2012 out of retained earnings, but not recognised as a liability at year end is:	**112.2**	90.3

27 Key Management Personnel disclosures

(a) Key Management Personnel compensation

	2012 $'000	2011 $'000
Short-term employee benefits	**13,555**	15,023
Post-employment benefits	**570**	632
Long-term benefits	**256**	263
Termination benefits	**1,171**	–
Share-based payments	**3,238**	1,199
	18,790	17,117

Short-term employee benefits include cash salary, at risk performance incentives and fees and non monetary benefits. Non-monetary benefits represent the value of Reportable Fringe Benefits for the respective Fringe Benefits Tax year ending 31 March, the estimated value of car parking provided and annual leave accrued or utilised during the financial year.

(b) Equity instrument disclosures relating to Key Management Personnel

(i) Rights provided as remuneration and shares issued on exercise of such rights

Details of the rights provided as remuneration, and shares issued on the exercise of such rights, together with terms and conditions of the rights, can be found in sections 6.1.3, 6.1.4 and 7.1 of the remuneration report.

(ii) Rights holdings

The numbers of rights over ordinary shares in the Group held during the financial year by each Director of QR National Limited and other Key Management Personnel of the Group, including their personally related parties, are set out below.

2012 Name	Balance at start of the year '000	Granted as compensation '000	Exercised '000	Other changes '000	Balance at end of the year '000	Vested and exercisable '000	Unvested '000
L E Hockridge	1,333	494	(333)	–	1,494	–	1,494
D M O'Toole	137	179	–	–	316	–	316
K R Lewsey	127	158	–	–	285	–	285
M P McAuliffe	118	144	(93)	(169)	–	–	–
M G Carter	118	143	–	–	261	–	261
G P Pringle	108	135	–	–	243	–	243
R J Stephens	108	135	–	–	243	–	243
L J Cooper	98	121	–	–	219	–	219
C M Davies	118	51	–	(51)	118	–	118
G Robinson	–	51	(16)	–	35	–	35
P Scurrah	–	70	(40)	–	30	–	30

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

27 Key Management Personnel disclosures (continued)

(b) Equity instrument disclosures relating to Key Management Personnel (continued)

2011 Name	Balance at start of the year '000	Granted as compensation '000	Exercised '000	Other changes '000	Balance at end of the year '000	Vested and exercisable '000	Unvested '000
L E Hockridge	–	1,333	–	–	1,333	–	1,333
D M O'Toole	–	137	–	–	137	–	137
K R Lewsey	–	127	–	–	127	–	127
M P McAuliffe	–	118	–	–	118	–	118
M G Carter	–	118	–	–	118	–	118
G P Pringle	–	108	–	–	108	–	108
R J Stephens	–	108	–	–	108	–	108
L J Cooper	–	98	–	–	98	–	98
C M Davies	–	118	–	–	118	–	118

(iii) Share holdings

The numbers of shares in the Group held during the financial year by each Director of QR National Limited and other Key Management Personnel of the Group, including their personally related parties, are set out below.

2012 Name	Balance at the start of the year '000	Received during the year on the exercise of rights '000	Other changes during the year '000	Balance at end of the year '000
Directors of QR National Limited(1)				
J B Prescott AC	157	–	58	215
L E Hockridge	204	333	1	539
J Atkin	20	–	1	21
R R Caplan	82	–	–	82
G T John AO	47	–	10	57
A J P Staines	5	–	–	5
G T Tilbrook	31	–	–	31
K Field	–	–	–	–
J Cooper	–	–	12	12
Other Key Management Personnel of the Group(2)				
D M O'Toole	105	–	1	106
K R Lewsey	61	–	2	63
M G Carter	41	–	22	63
G P Pringle	29	–	1	30
R J Stephens	91	–	–	91
L J Cooper	12	–	1	13
G Robinson	9	16	20	45
P Scurrah	–	40	–	40

(1) Mr A J Davies resigned on 13 December 2011 and Mr P C Kenny (deceased) ceased being director on 8 October 2011.

(2) Mr M P McAuliffe and Mr C M Davies ceased employment on 30 June 2012 and 25 May 2012 respectively and are no longer considered as key management personnel.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

27 Key Management Personnel disclosures (continued)

(b) Equity instrument disclosures relating to Key Management Personnel (continued)

(iii) Share holdings (continued)

2011 Name	Balance at the start of the year '000	Received during the year on the exercise of rights '000	Other changes during the year '000	Balance at end of the year '000
Directors of QR National Limited				
J B Prescott AC	–	–	157	157
L E Hockridge	–	–	204	204
J Atkin	–	–	20	20
R R Caplan	–	–	82	82
A J Davies	–	–	184	184
G T John AO	–	–	47	47
P C Kenny (deceased)	–	–	2	2
A J P Staines	–	–	5	5
G T Tilbrook	–	–	31	31
Other Key Management Personnel of the Group				
D M O'Toole	–	–	105	105
K R Lewsey	–	–	61	61
M P McAuliffe	–	–	20	20
M G Carter	–	–	41	41
G P Pringle	–	–	29	29
R J Stephens	–	–	91	91
L J Cooper	–	–	12	12
C M Davies	–	–	112	112

(c) Transactions with Directors and Key Management Personnel

There were no Key Management Personnel related party transactions during the year.

28 Contingencies

The Group had contingencies at 30 June 2012 in respect of:

(a) Contingent liabilities

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

Litigation

A number of common law claims are pending against the Group. Provisions are taken up for some of these exposures based on the management's determination, and are included as such in note 21.

Guarantees and letters of credit

For information about guarantees and letters of credit given by the Group, refer to note 3(d).

Deed of cross guarantee

Cross guarantees are given by the Company and some of its wholly owned subsidiaries as described in note 33.

Defined benefit fund liabilities

The State of Queensland has permitted existing employees of QR National Limited and its subsidiaries including QR Limited (the QR National Group), as at the date of the IPO, to retain their existing superannuation arrangements with the State Superannuation Public Sector Scheme (QSuper), and has provided the Group an indemnity if the State of Queensland Treasurer requires the Group to pay any amounts required to meet the defined benefit obligations. An actuarial assessment of the fund as at 30 June 2010 has been completed which showed the fund to be in surplus. Existing contribution arrangements are to continue into the foreseeable future.

Joint venture arrangements

Refer to note 30 for details of the Group's share of the net asset deficiencies in joint venture investments. The Group is required to contribute additional capital, if requested, to make good any deficiency under the terms of the joint venture agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2012

28 Contingencies (continued)

(b) Contingent assets

Revenue cap adjustments

The Group has a contingent asset in respect of revenue cap adjustments in Network Services. Access revenue is subject to a revenue cap mechanism that serves to ensure the network recovers its full regulated revenue over the regulatory period, with the majority of under or over recovery in access tariffs (net of take or pay charges) during a financial year being charged or refunded, and recognised as revenue, in the second year following the period in which the contractual railings were not achieved. Subject to regulatory approval and any adjustments resulting from below rail cause, recovery of shortfalls via the revenue cap of $65.3 million (2011: $46.5 million) will be received during the year ending 30 June 2013 ($49.2 million) and 30 June 2014 ($16.1 million).

Deficit tonnage charges

The Group has a contingent asset of $33.2 million (2011: $21.1 million) in respect of deficit tonnage charges relating to contracts with a period ending 30 June 2012. Deficit tonnage charges are recognised in the period following that in which the service was due to be provided where the customer elects to pay the charges rather than reduce future tonnage entitlements.

Stamp duty

In 2010, the Group recognised an expense of $24.9 million for stamp duty paid in relation to the 2006 acquisition of Australian Railroad Group ("ARG"). The amount was paid based on an assessment issued by the WA Office of State Revenue and as required under the Group's Joint Acquisition Agreement ("JAA") with Brookfield Infrastructure Group (Australia) Pty Ltd ("Brookfield") (previously Prime Infrastructure). Brookfield, as the primary legal party, subsequently appealed the assessment through a submission to the WA State Advisory Tribunal. Under the JAA, the above amount would be refunded to QR National by Brookfield upon a favourable decision.

On 9 March 2012, the Tribunal found in favour of Brookfield. In late March 2012, the WA Office of State Revenue appealed the decision to the WA Court of Appeal. The appeal is expected to be heard before December 2012. The Group is optimistic there will be a favourable outcome and the above amount will be refunded to QR National by Brookfield, as there are strong legal arguments to support the case.

Flood recovery

The Group has incurred $6.9 million (2011: $nil) to repair the damages resulting from the severe flood event across Central Queensland. The Group has lodged a submission with Queensland Competition Authority ("QCA") for the recovery of these costs as adjustments to tariffs. QCA is currently reviewing the submission.

Guarantees and letters of credit

For information about guarantees given to the Group, refer to note 3(d).

29 Commitments

(a) Capital commitments

	2012 $m	2011 $m
Capital expenditure contracted for at the reporting date but not recognised as liabilities is payable as follows:		
Property, plant and equipment		
Within one year	**254.2**	353.4
Later than one year but not later than five years	**2.3**	–
	256.4	353.4

(b) Lease commitments

Commitments for minimum lease payments in relation to non-cancellable operating leases (excluding GST) are payable as follows:

	2012 $m	2011 $m
Within one year	**46.8**	46.2
Later than one year but not later than five years	**56.7**	81.0
Later than five years	**3.9**	6.9
	107.4	134.1

The above commitments flow primarily from operating leases of property and machinery. These leases, with terms mostly ranging from one to ten years, generally provide the Group with a right of renewal, at which times the lease terms are renegotiated. The lease payments comprise a base amount, while the property leases also contain a contingent rental, which is based on either the movements in the Consumer Price Index or another fixed percentage as agreed between the parties.

(c) Lease commitments receivable: where the Group is the lessor

	2012 $m	2011 $m
Some fixed assets are leased to tenants with rents payable monthly. Minimum lease payments (excluding GST) not recognised in the financial statements are receivable as follows:		
Within one year	**8.2**	5.9
Later than one year but not later than five years	**6.2**	9.3
Later than five years	**7.2**	8.0
	21.6	23.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

30 Interests in joint ventures and associates

(a) Joint venture operation

The Group has an interest in the Nickel West Land Logistics Joint Venture Agreement. The Group severally provides rail freight services under this agreement, and the joint venture partner severally provides road freight services. There are no assets jointly controlled by the operation.

(b) Jointly controlled assets

The Group has a 33.3 % (2011: 33.3 %) participating interest in a joint venture through its wholly owned subsidiary, QR Surat Basin Pty Ltd, together with two other parties.

The Group's share of the joint assets, any liabilities that it has incurred directly and its share of any liabilities incurred jointly with the other venturers, income from the sale or use of its share of the output of the joint venture, its share of expenses incurred by the joint venture, and expenses incurred directly in respect of its interest in the joint venture, are detailed below.

The amounts are included in the consolidated financial statements under their respective asset, liability, income and expense categories:

	2012 $m	2011 $m
Group's share of:		
Current assets	**1.0**	0.3
Non-current assets	**8.7**	2.5
Current liabilities	**(1.2)**	(0.1)
Non-current liabilities	**(9.3)**	(3.9)
Total net assets	**(0.8)**	(1.2)
Revenue	**0.0**	0.0
Expenses	**0.0**	0.0
Tax benefit	**0.0**	0.0
Net profit/(loss) after tax	**0.0**	0.0

The balance sheet and income statement is based on the unaudited financial statements of the Surat Basin Rail joint venture as at 30 June 2012 (2011: 30 June 2011).

Under Clause 7.3 of the QR Surat Basin Pty Ltd Joint Venture Agreement dated 4 December 2006, the Project Director may call for additional contributions of funding from the participants in order to fund any expenditure incurred or to be incurred.

(c) Joint venture entities

The joint venture entities in which the Group has an interest and which are equity accounted in the financial statements are as follows:

		Ownership interest		
Name	Country of operation	2012 %	2011 %	Principal activity
CHCQ	China-Hong Kong	**15**	15	Construction
Chun Wo/CRGL	China-Hong Kong	**20**	20	Construction
KMQR Sdn Bhd	Malaysia	**30**	30	Consulting
ARG Risk Management Limited	Australia	**50**	50	Insurance
QLM Pty Ltd	Australia	**50**	50	Dormant

(i) Movements in carrying amounts

	2012 $m	2011 $m
Carrying amount at the beginning of the financial year	**0.5**	0.5
Share of profits after income tax	**0.0**	0.0
Dividends received/receivable	**0.0**	0.0
Carrying amount at the end of the financial year	**0.5**	0.5

(ii) Share of joint ventures' assets, liabilities, revenue, expenses and results

	2012 $m	2011 $m
Group's share of:		
Current assets	**2.2**	2.2
Non-current assets	**0.0**	0.0
Total assets	**2.2**	2.2
Current liabilities	**(1.7)**	(1.7)
Non-current liabilities	**0.0**	0.0
Total liabilities	**(1.7)**	(1.7)
Total net assets	**0.5**	0.5
Revenue	**0.0**	0.0
Expenses	**0.0**	0.0
Profit before income tax	**0.0**	0.0
Tax	**0.0**	0.0
Profit after income tax	**0.0**	0.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2012

30 Interests in joint ventures and associates (continued)

(d) Investments in associates

(i) Movement in carrying values

	2012 $m	2011 $m
Opening balance	–	–
Additional investments	41.1	–
Transfer from available-for-sale investments	36.3	–
Share of profit in associates	0.1	–
Closing balance (note 14)	77.5	–

(ii) Fair value of unlisted investments in associates

	2012 $m	2011 $m
Moorebank Industrial Property Trust	77.5	–

(iii) Summarised financial information of associates

The Group's share of the results of its principal associates and its aggregated assets (including goodwill) and liabilities are as follows:

		Company's share of:			
	Ownership Interest %	Assets $m	Liabilities $m	Revenues $m	Profit $m
2012					
Moorebank Industrial Property Trust	33.0	78.2	0.7	–	–

(iv) Contingent liabilities of associates

	2012 $m	2011 $m
Share of contingent liabilities incurred jointly with other investors	–	–
Contingent liabilities relating to liabilities of the associate for which the company is severally liable	–	–
	–	–

31 Related party transactions

(a) Parent entities

The parent and ultimate parent entity within the Group is QR National Limited.

(b) Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following principal subsidiaries in accordance with the accounting policy described in note 1(b):

			Equity holding	
Name of entity	Country of incorporation	Class of shares	2012 %	2011 %
QR Limited	Australia	Ordinary	100.0	100.0
QR Intermodal Pty Ltd	Australia	Ordinary	100.0	100.0
Interail Australia Pty Ltd	Australia	Ordinary	100.0	100.0
Logistics Australasia Pty Ltd	Australia	Ordinary	100.0	100.0
Golden Bros. Group Pty Ltd	Australia	Ordinary	100.0	100.0
CRT Group Pty Ltd	Australia	Ordinary	100.0	100.0
NHK Pty Ltd	Australia	Ordinary	100.0	100.0
Australian Rail Pty Ltd	Australia	Ordinary	100.0	100.0
Australian Eastern Railroad Pty Ltd	Australia	Ordinary	100.0	100.0
Australian Railroad Group Employment Pty Ltd	Australia	Ordinary	100.0	100.0
Australian Western Railroad Pty Ltd	Australia	Ordinary	100.0	100.0
AWR Lease Co Pty Ltd	Australia	Ordinary	100.0	100.0
QR Network Pty Ltd	Australia	Ordinary	100.0	100.0
QR Surat Basin Pty Ltd	Australia	Ordinary	100.0	100.0
QRN Property Holding Pty Ltd	Australia	Ordinary	100.0	100.0
QRN Property Pty Ltd	Australia	Ordinary	100.0	100.0
QRN Terminal Pty Ltd	Australia	Ordinary	100.0	100.0
QRN Moorebank Holdings Pty Ltd	Australia	Ordinary	100.0	–
QRN Moorebank Pty Ltd	Australia	Ordinary	100.0	–
QRN Moorebank Unit Trust	Australia	Units	100.0	–
QRN Finance Pty Ltd	Australia	Ordinary	100.0	100.0

(c) Key Management Personnel

Disclosures relating to Key Management Personnel are set out in note 27.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2012

31 Related party transactions (continued)

(d) Transactions with other related parties

The following transactions occurred with related parties:

	2012 $'000	2011 $'000
Dividend revenue - other related parties	7	39

(e) Terms and conditions of transactions with related parties other than Key Management Personnel or entities related to them

All other transactions, other than those with the State as described below, were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parent and its subsidiaries. All loans are non interest bearing. Outstanding balances are unsecured.

(f) Transactions with State of Queensland controlled entities

Until its 22 November 2010 listing on the ASX, the Group was a Queensland Government Owned Corporation, with all shares held by the Shareholding Ministers, on behalf of the State. Following listing, the State retained a 34.0 % interest in the Company, which reduced to 33.7 % in December 2011. The State remains a related party to the Group.

Queensland Treasury Corporation ("QTC") borrowings of $4,388.3 million were replaced by a capital contribution from the State via Transfer Notice just prior to the listing on the ASX. Interest expense of $140.7 million was paid to QTC during the prior financial year. A dividend of $86.4 million was paid to the State prior to listing.

Transport Services Contracts

The Group has entered into Transport Service Contracts ("TSCs") with the State (acting through the Department of Transport and Main Roads) to provide general freight and livestock transportation services. The contracts commenced on 1 July 2010 and expire on 30 June 2015 and 31 December 2015 respectively.

Under the contracts, for the initial two and a half years, the Group will receive monthly base payments and quarterly payments in aggregate totalling $150.0 million for the year ended 30 June 2011, $148.1 million for the year ended 30 June 2012 and $75.1 million for the six months ended 31 December 2012.

After 31 December 2012, and until expiry of the contract, there is a process to calculate payment amounts for the services then required by the State as detailed in the contract.

In addition, the contracts provide for additional payments of $90.0 million (general freight) and $13.0 million (livestock) between 31 December 2012 and the expiry of the contracts relating to services provided over the life of the contracts (refer to note 5).

Service contracts with Queensland Rail

There exist a number of related party transactions between the Group and Queensland Rail Limited ("Queensland Rail") arising from the separation of Queensland Rail from the Group on 30 June 2010. These transactions relate to service contracts (entered into between the parties) that are broadly priced on the basis of cost recovery plus a profit margin. At the conclusion of each contract (tenors range between one and five years), they will ordinarily be renegotiated by business as usual tender processes.

The largest service contracts (by financial value) are for the provision of maintenance services; repairs, manufacture and overhaul of rollingstock; hook and pull services for passenger rollingstock; IT services; and stowing services.

32 Business combination

(a) Summary of acquisition

There were no acquisitions undertaken in the current year.

During the prior year, CRT Group Pty Ltd acquired assets and liabilities that were considered to constitute a business of Isa Freight Express. The acquisition occurred in two Tranches, in July 2010 and October 2010. In June 2011, CRT Group Pty Ltd acquired assets and liabilities that were considered to constitute a business of Pittman Transport Pty Ltd. These businesses were acquired for $12.3 million.

(b) Cash flow information

	2012 $m	2011 $m
Outflow of cash to acquire business, net of cash acquired		
Cash consideration	–	12.3
Less: balances acquired		
Cash	–	–
Outflow of cash - investing activities	–	12.3

(c) Assets and liabilities acquired

	30 June 2011	
	Acquiree's carrying amount $m	Fair value $m
Plant and equipment	12.2	12.2
Provisions	(0.2)	(0.2)
Net identifiable assets acquired	12.0	12.0
Add: Goodwill		0.3
Net assets acquired		12.3

33 Deed of cross guarantee

QR National Limited, QRN Finance Pty Ltd, QRN Property Holding Pty Ltd, QRN Property Pty Ltd, QRN Terminal Pty Ltd, QR Limited, QR Intermodal Pty Ltd, Logistics Australasia Pty Ltd, Golden Bros. Group Pty Ltd, CRT Group Pty Ltd, Interail Australia Pty Ltd, Australian Rail Pty Ltd, Australia Eastern Railroad Pty Ltd, Australia Western Railroad Pty Ltd, Australian Railroad Group Employment Pty Ltd and QR Network Pty Ltd (the "QR National Deed Parties", and each a "QR National Deed Party") entered into a Deed of Cross Guarantee dated 11 March 2011 (the "Cross Guarantee") with QR National Limited as the 'Holding Entity', under which each QR National Deed Party guarantees the debts of each other QR National Deed Party. By entering into the new Deed and lodging it with the Australian Securities and Investments Commission ("ASIC") on 29 March 2011, the wholly-owned QR National Deed Parties have been relieved from the requirement to prepare separate financial and Directors' reports by the operation of ASIC Class Order 98/1418 (as amended) (the "Class Order"). The cross guarantee became effective on lodgement with ASIC on 29 March 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

33 Deed of cross guarantee (continued)

(a) Consolidated income statement, consolidated statement of comprehensive income and summary of movements in consolidated retained earnings

The QR National Deed Parties represent the 'closed group' for the purposes of the Class Order, and as there are no other parties to the cross guarantee that are controlled by QR National Limited, they also represent the 'extended closed group'.

The results of all the QR National Deed Parties are presented below in the consolidated income statement, a consolidated statement of comprehensive income, and a summary of movements in consolidated retained earnings. This represents the results of the Group, excluding On Track Insurance Pty Ltd, NHK Pty Ltd, AWR Lease Co Pty Ltd, QRN Moorebank Holdings Pty Ltd, QRN Moorebank Pty Ltd, QRN Moorebank Unit Trust and QR Surat Basin Pty Ltd.

	2012 $m	2011(1) $m
Income statement		
Revenue from continuing operations	**3,469.1**	3,195.0
Other income	**130.2**	148.4
Consumables	**(1,400.1)**	(1,330.4)
Employee benefits expense	**(1,132.6)**	(1,220.5)
Depreciation and amortisation expense	**(463.5)**	(456.8)
Other expenses	**(41.6)**	(63.2)
Finance costs	**(41.5)**	(141.2)
Share of net profits of associates and joint venture partnership accounted for using the equity method	**0.2**	0.0
Profit before income tax	**547.2**	131.3
Income tax (expense)/benefit	**(117.7)**	280.5
Profit for the year	**429.5**	411.8
Statement of comprehensive income		
Profit for the year	**429.5**	411.8
Other comprehensive income		
Cash flow hedges	**0.4**	(0.4)
Income tax relating to components of other comprehensive income	**(0.1)**	0.1
Other comprehensive income for the year, net of tax	**0.3**	(0.3)
Total comprehensive income for the year	**429.8**	411.5

	2012 $m	2011(1) $m
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	**927.1**	564.2
Profit for the year	**429.5**	411.8
Dividends provided for or paid	**(180.6)**	(86.4)
Disposal of subsidiary	**–**	37.5
Retained earnings at the end of the financial year	**1,176.0**	927.1

(b) Consolidated balance sheet

The balance sheet of the parties to the Deed of Cross Guarantee at each reporting date is presented below.

	2012 $m	2011(1) $m
Current assets		
Cash and cash equivalents	**98.5**	117.0
Trade and other receivables	**549.8**	480.9
Inventories	**215.8**	177.6
Derivative financial instruments	**0.1**	21.3
Other assets	**8.0**	10.3
Assets classified as held for sale	**8.7**	–
Total current assets	**881.0**	807.1
Non-current assets		
Other assets	**0.5**	37.0
Inventories	**8.7**	20.7
Property, plant and equipment	**9,012.1**	8,305.6
Intangibles	**16.6**	24.9
Investments accounted for using the equity method	**0.5**	0.5
Derivative financial instruments	**-**	3.5
Other financial assets	**18.8**	18.8
Total non-current assets	**9,057.2**	8,411.0
Total assets	**9,938.1**	9,218.1

(1) Refer to note 1(q) for explanations of retrospective adjustments recognised as a result of a change in accounting policy. The amounts disclosed in this note are after these adjustments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

33 Deed of cross guarantee (continued)

(b) Consolidated balance sheet (continued)

	2012 $m	2011(1) $m
Current liabilities		
Trade and other payables	**348.4**	309.9
Derivative financial instruments	**1.3**	27.3
Provisions	**379.2**	320.3
Other liabilities	**37.5**	36.2
Total current liabilities	**766.4**	693.7
Non-current liabilities		
Derivative financial instruments	**2.0**	3.8
Borrowings	**1,201.6**	803.2
Deferred tax liabilities	**366.8**	257.2
Provisions	**81.3**	81.3
Other liabilities	**227.7**	343.0
Total non-current liabilities	**1,879.4**	1,488.5
Total liabilities	**2,645.8**	2,182.2
Net assets	**7,292.3**	7,035.9
Equity		
Contributed equity	**6,119.1**	6,111.9
Reserves	**(2.8)**	(3.1)
Retained earnings	**1,176.0**	927.1
Total equity	**7,292.3**	7,035.9

34 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

PwC Australia

	2012 $'000	2011 $'000
Audit and other assurance services		
Audit and review of financial statements	**1,670**	1,956
Other assurance services		
Audit of regulatory returns	**230**	35
Other assurance services	**79**	48
Total remuneration for audit and other assurance services	**1,979**	2,039
Taxation services		
Tax advisory services	**539**	1,225
Other services		
Advisory services	**1,619**	3,153

	2012 $'000	2011 $'000
Total remuneration of PwC Australia	**4,137**	6,417

Auditor remuneration in the prior year includes $3,439,000 of non-audit services performed prior to listing on 22 November 2010 and prior to the appointment of PwC as auditor of the Company.

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

	2012 $m	2011(1) $m
Profit for the year	**440.9**	360.9
Depreciation and amortisation	**463.7**	457.2
Impairment of non-current assets	**–**	2.2
Impairment of financial assets	**0.7**	0.5
Non-cash employee benefits expense - share-based payments	**7.2**	12.0
Interest capitalised to qualifying assets	**(45.4)**	(41.4)
Net (gain) loss on sale of non-current assets	**(16.2)**	2.1
Inventory obsolescence	**2.9**	2.4
Amortisation of prepaid access facilitation deed charges	**(28.5)**	(26.4)
Fair value adjustment to derivatives	**(0.6)**	5.3
Change in operating assets and liabilities:		
(Increase) in trade debtors	**(75.4)**	67.6
(Increase) in inventories	**(29.1)**	(9.5)
(Increase) decrease in other operating assets	**27.2**	0.8
(Decrease) increase in trade and other payables	**36.2**	(29.6)
(Decrease) increase in other operating liabilities	**81.9**	(259.0)
(Decrease) increase in other provisions	**58.9**	40.0
Net cash inflow (outflow) from operating activities	**924.4**	585.1

(1) Refer to note 1(q) for explanations of retrospective adjustments recognised as a result of a change in accounting policy. The amounts disclosed in this note are after these adjustments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

36 Earnings per share

(a) Basic earnings per share

	2012 Cents	2011[1] Cents
Total basic and diluted earnings per share attributable to the ordinary equity holders of the Company	**18.1**	15.4

(b) Reconciliation of earnings used in calculating earnings per share

	2012 $m	2011[1] $m
Basic and diluted earnings per share		
Profit from continuing operations	**440.9**	360.9

(c) Weighted average number of shares used as denominator

	2012 Number '000	2011 Number '000
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	**2,440,000**	2,339,726

(d) Information on the classification of securities

All shares issued by QR National Limited are fully paid ordinary shares that participate equally in profit distributions.

(1) Refer to note 1(q) for explanations of retrospective adjustments recognised as a result of a change in accounting policy. The amounts disclosed in this note are after these adjustments.

37 Share-based payments

(a) Performance rights plan

The Performance Rights Plan was established by the Board of Directors to provide long-term incentives to the Group's senior executives based on shareholder returns taking into account the Group's financial and operational performance. Under the Plan, eligible executives may be granted rights on terms and conditions determined by the Board from time to time. Participation in the plan is at the Board's discretion so that no individual has a contractual right to be awarded rights under the plan or to receive any guaranteed benefits.

The Board will determine the exercise price payable on exercise of a vested right, and the exercise period of a right. The Board may, at its discretion, determine that early vesting of a right will occur if there is a takeover bid, scheme of arrangement or some other change of control transaction of the Group. The Board may also accelerate the vesting of some or all of the rights held by an executive in specified circumstances. These include, but are not limited to, death, total and permanent disablement, or cessation of employment.

Performance rights are granted by the Company for nil consideration. Each right is a right to receive one fully-paid ordinary share in QR National Limited at no cost if the vesting conditions are satisfied. Rights granted under the plan carry no dividend or voting rights.

Deferred Short-term Incentive Award ("STIAD")

The STIAD was implemented in the 2011 financial year under which rights to the value of 50 % of the cash Short-term Incentive Awards ("STIA") received by eligible executives would be granted as rights to ordinary shares. The rights will vest equally over a two-year period, and become exercisable, provided that the executive remains employed by the group at the vesting date, unless otherwise determined by the Board.

The CEO was granted rights under STIAD on listing based on the likelihood of achieving EBITDA performance hurdles.

Long-term Incentive Award ("LTIA")

Performance rights are granted to senior executives as part of the Group's LTIA. The first grant of LTIA rights was in November 2010. The rights are subject to the executives remaining employed by the Group and satisfying market-based performance hurdles of Total Shareholder Return ("TSR") and non-market-based EPS and EBIT targets. The proportion of the LTIA rights that become exercisable will depend upon the TSR achieved by the Group, relative to a peer group of companies over a three-year period. The peer group comprises the companies in the ASX Top 100 index, other than financial, medical, telecommunications, pharmaceutical and gaming companies. To determine to what extent the TSR-related performance rights will vest, the TSR of the Group, over the performance period, will be compared to the TSR of all the companies in the peer group. Each of these peer companies will be ranked from highest to lowest based on their TSR over the performance period and the number of rights that vest will depend on where the group is ranked amongst the peer group. For the purposes of calculating the TSR measurement, the relevant share prices will be determined by reference to the volume weighted average share price over the 20 business days after the grant date and 20 business days before the end of the performance period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

37 Share-based payments (continued)

(a) Performance rights plan (continued)

Retentions

At the Board's discretion, eligible executives may be granted retention rights that may vest at the end of the specified retention period, provided that the executive remains employed by the Group at the vesting date.

Set out below are summaries of rights granted under the plan:

	Balance at start of the year Number '000	Granted during the year Number '000	Exercised during the year Number '000	Forfeited during the year Number '000	Balance at the end of the year Number '000
2012					
STIAD	667	1,573	(333)	(192)	1,715
LTI	4,582	3,774	(93)	(544)	7,719
Retentions	–	476	(56)	–	420
Total	5,249	5,823	(482)	(736)	9,854
2011					
STIAD	–	667	–	–	667
LTI	–	4,582	–	–	4,582
Total	–	5,249	–	–	5,249

The weighted average exercise price of rights granted during the year was nil (2011: nil), as the rights have no exercise price.

The weighted average share price at the date of exercise for rights exercised during the period was $3.24.

The weighted average remaining contractual life of share rights outstanding at 30 June 2012 was 1.4 years (2011: 2.2 years).

Fair value of rights

2012

In determining the fair value below standard market techniques for valuation were applied in accordance with AASB2. The fair value of the STIAD and the portion of LTIA rights, that are subject to non-market based performance conditions, are determined by the share price at grant date less an adjustment for estimated dividends payable during the vesting period. The fair value of the LTIA rights subject to the TSR market based performance condition has been calculated using an expected vesting under the TSR performance test and applying it to the share price at grant date. In estimating expected vesting it, was assumed an equal chance that each company in the TSR peer group may finish the performance period ranked at any position within the group. Analysis was performed comparing this approach to the Monte-Carlo simulation conducted in the prior year and resulted in similar outcomes.

The key assumptions adopted for the valuation of performance rights granted during 2012 are contained below:

	STIAD		LTIA	
Tranche	**Year 1**	**Year 2**	**TSR**	**EBIT/EPS**
Grant date	28 Sep 2011	28 Sep 2011	22 Aug 2011	22 Aug 2011
Vesting date	28 Sep 2012	28 Sep 2013	30 Jun 2014	30 Jun 2014
Share price at grant date	$3.17	$3.17	$3.25	$3.25
Expected life	1 year	2 years	3.5 years	3.5 years
Dividend yield	3.05 %	3.05 %	3.05 %	3.05 %
Fair value	$3.08	$2.99	$1.28	$2.93

2011

The valuation of rights granted under the STIAD for the CEO was estimated with reference to historical EBIT performance from previous years for the QR Limited Group for which the Company became the parent on 21 September 2010. Given the limited data, this was considered the best proxy available. For other executives, the fair value is based on 50 % of their cash STIA.

The fair value of performance rights granted under the LTI was determined independently by Deloitte using the Monte-Carlo valuation method. The model takes into account a range of assumptions and the fair values have been calculated including the assumptions below:

	TSR	EPS
Grant date	22 Nov 2010	22 Nov 2011
Vesting date	22 Nov 2013	30 Sep 2013
Exercise price	n/a	n/a
Volatility	30 %	n/a
Risk free interest rate	5.25 %	n/a
Dividend yield - 2011 financial year	2.1 % - 2.5 %	n/a
Dividend yield - 2012 financial year	2.8 % - 3.3 %	n/a
Expected life (years)	3.5	3.5
Share price at grant date	$2.54	$2.54
Fair value per right	$0.94	$1.14

As the company did not have historical share price data, the volatility of peer companies, Qantas, Asciano and Toll were used as a proxy. The expected volatility of the share price of each company's in the peer group is determined based on the historical volatility of that company's share price. Two years of historic volatility for each peer company were used. It was deemed appropriate to exclude the abnormal volatility score through the height of the Global Financial Crisis.

(b) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period, as part of employee benefit expense, was $8.7 million (2011: $11.9 million, including shares to the value of $9.0 million gifted to eligible employees from the State in relation to the IPO).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2012

38 Parent entity financial information

(a) Summary financial information

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

	2012 $m	2011 $m
Current assets	**7.8**	0.0
Non-current assets	**6,121.3**	6,149.6
Current liabilities	**(7.9)**	–
Non-current liabilities	**(2.0)**	(37.6)
Net assets	**6,119.2**	6,112.0
Shareholders' equity		
Contributed equity	**6,119.1**	6,111.9
Retained earnings	**0.1**	0.1
Total equity	**6,119.2**	6,112.0
Profit or loss for the year	**–**	0.1
Total comprehensive income	**–**	0.1

The parent entity has several employees. All costs associated with these employees are borne by a subsidiary of the parent entity and are not included in the above disclosures.

(b) Guarantees entered into by the parent entity

There are cross guarantees given by QR National Limited, QR Limited, QRN Finance Pty Ltd, QRN Property Holding Pty Ltd, QRN Terminal Pty Ltd, QRN Property Pty Ltd, QR Intermodal Pty Ltd, Logistics Australasia Pty Ltd, Golden Bros. Group Pty Ltd, CRT Group Pty Ltd, Interail Australia Pty Ltd, Australian Rail Pty Ltd, Australia Eastern Railroad Pty Ltd, Australia Western Railroad Pty Ltd, Australian Railroad Group Employment Pty Ltd and QR Network Pty Ltd as described in note 33.

(c) Contingent liabilities of the parent entity

The parent entity did not have any material contingent liabilities as at 30 June 2012 or 30 June 2011. For information about guarantees given by the parent entity, please see above.

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

As at 30 June 2012, the parent entity did not have any contractual commitments for the acquisition of property, plant or equipment (2011: nil).

39 Events occurring after the reporting period

On 23 August 2012 QR National Limited , after considering cash forecasts and current balance sheet, announced to the ASX an on market program to buy-back up to 10 % of its issued share capital (244 million shares).

On 5 June 2012, the Group announced the commencement of its consultation process on the voluntary redundancy program as a result of a further strategic review and restructure of the workforce. As at the date of this report, the Group has determined to accept approximately 750 voluntary redundancy applications at a one-off cost estimated at $75 million to be incurred in the 2013 financial year. The expected payback period in respect of this is approximately 12 months.

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of the Company, I state that: In the opinion of the Directors of the Company:

(a) the financial statements and notes set out on pages 46 to 91 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards and other mandatory professional reporting requirements as detailed above, and the *Corporations Regulations 2001*; and

(ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date, and

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

(c) at the date of this declaration, there are reasonable grounds to believe the members of the extended closed group identified in note 33 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee described in note 33.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

John B Prescott AC
Chairman

Brisbane QLD
23 August 2012

pwc

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF QR NATIONAL LIMITED

Report on the financial report

We have audited the accompanying financial report of QR National Limited (the company), which comprises the balance sheet as at 30 June 2012, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the QR National Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of 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 and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757
Riverside Centre, 123 Eagle Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001
T: +61 7 3257 5000, F: +61 7 3257 5999, www.pwc.com.au

pwc

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF QR NATIONAL LIMITED

Auditor's opinion

In our opinion:

(a) the financial report of QR National Limited is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 24 to 38 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of QR National Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Robert Hubbard
Partner

Brisbane
23 August 2012

PricewaterhouseCoopers, ABN 52 780 433 757
Riverside Centre, 123 Eagle Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001
T: +61 7 3257 5000, F: +61 7 3257 5999, www.pwc.com.au

SHAREHOLDER INFORMATION

Range of Fully Paid Ordinary Shares as at 17 August 2012

Range	Total holders	Units	% of Issued Capital
1 – 1,000	22,401	14,723,485	0.60
1,001 – 5,000	28,922	64,856,589	2.66
5,001 – 10,000	3,856	28,290,169	1.16
10,001 – 100,000	3,425	65,619,839	2.69
100,001 – 999,999,999	141	2,266,509,918	92.89
1,000,000,000 – 9,999,999,999	0	0	0.00
Rounding			**0.00**
Total	**58,745**	**2,440,000,000**	**100**

Unmarketable Parcels

	Minimum Parcel Size	Holders	Units
Minimum $ 500.00 parcel at $ 3.35 per unit	150	528	27,427

The number of shareholders holding less than the marketable parcel of shares is 528 (shares: 27,427).

Substantial Holders of 5% or more of Fully Paid Ordinary Shares as at 17 August 2012*

Name	Notice date	Shares
Queensland Treasury Holdings Pty Ltd, Gerard Bradley (Under Treasurer of the State of Queensland)	3 December 2010	829,600,000
Perpetual Limited	16 July 2012	150,152,065
Children's Investment Fund Management	8 May 2012	125,051,143
Commonwealth Bank of Australia and its subsidiaries	23 August 2011	122,611,329

*As disclosed in substantial shareholder notices received by the Company.

Investor Calendar

2013 Dates	Details
21 February 2013	Half year results and interim dividend announcement
29 March 2013	Interim dividend payment date
22 August 2013	Full Year results and final dividend announcement
30 September 2013	Final dividend payment date
7 November 2013	Annual General Meeting

Note:
The payment of a dividend is subject to the Corporations Act and Board discretion.
The timing of any event listed above may change. Please refer regularly to the QR National website, www.qrnational.com.au, for an up-to-date list of upcoming events.

ASX code: QRN

Contact details

QR National
GPO Box 456
Brisbane, Qld, 4001

For general enquiries, please call 13 23 32 within Australia.
If you are calling from outside Australia, please dial +61 7 3019 5555
www.qrnational.com.au

Investor Relations

For all information about your shareholding, including employee shareholdings, dividend statements and change of address, contact the share registry Computershare on 1800 776 476 or visit **www.investorcentre.com/au**

To request information relating to Investor Relations please contact our Investor Relations team on +61 7 3019 5451 or email: **investor.relations@qrnational.com.au**

SHAREHOLDER INFORMATION

Top 20 Holders of Fully Paid Ordinary Shares as at 17 August 2012

Name	Address	Units	% of Units
QUEENSLAND TREASURY HOLDINGS PTY LTD	LEVEL 14, QLD MINERALS AND ENERGY CENTRE, 61 MARY STREET, BRISBANE QLD, 4000	821,507,659	33.67
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	GPO BOX 5302, SYDNEY NSW, 2001	485,355,502	19.89
NATIONAL NOMINEES LIMITED	GPO BOX 1406, MELBOURNE VIC, 3001	255,183,965	10.46
J P MORGAN NOMINEES AUSTRALIA LIMITED	LOCKED BAG 7, ROYAL EXCHANGE NSW, 1225	195,650,244	8.02
CITICORP NOMINEES PTY LIMITED	GPO BOX 764G, MELBOURNE VIC, 3001	124,188,498	5.09
JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	LOCKED BAG 20049, MELBOURNE VIC, 3001	82,310,862	3.37
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <PI POOLED A/C>	GPO BOX 5430, SYDNEY NSW, 2001	71,234,259	2.92
BNP PARIBAS NOMS PTY LTD <MASTER CUST DRP>	PO BOX R209, ROYAL EXCHANGE NSW, 1225	47,094,652	1.93
BNP PARIBAS NOMS PTY LTD <SL NON CASH COL>	PO BOX R209, ROYAL EXCHANGE NSW, 1225	21,043,500	0.86
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	GPO BOX 764G, MELBOURNE VIC, 3001	20,572,605	0.84
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <PIIC A/C>	GPO BOX 5430, SYDNEY NSW, 2001	10,479,393	0.43
AMP LIFE LIMITED	PO BOX R209, ROYAL EXCHANGE NSW, 1225	9,798,957	0.40
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <GSAM A/C>	GPO BOX 5430, SYDNEY NSW, 2001	9,159,581	0.38
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	GPO BOX 5302, SYDNEY NSW, 2001	8,005,020	0.33
BNP PARIBAS NOMS PTY LTD <SMP ACCOUNTS DRP>	PO BOX R209, ROYAL EXCHANGE NSW, 1225	7,190,207	0.29
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	GPO BOX 5302, SYDNEY NSW, 2001	6,268,830	0.26
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 3	GPO BOX 5302, SYDNEY NSW, 2001	5,871,177	0.24
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <PISELECT>	GPO BOX 5430, SYDNEY NSW, 2001	5,857,108	0.24
UBS NOMINEES PTY LTD <PB SEG A/C>	LEVEL 16 CHIFLEY TOWER, 2 CHIFLEY SQUARE, SYDNEY NSW, 2000	5,756,656	0.24
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	GPO BOX 5302, SYDNEY NSW, 2001	5,741,207	0.24
Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (TOTAL)		**2,198,269,882**	**90.09**
Total Remaining Holders Balance		**241,730,118**	**9.91**

Glossary

Some terms and abbreviations used in this document, together with industry specific terms, have defined meanings. These terms and abbreviations are set out in this glossary and are used throughout this document.

A reference to dollars, $ or cents in this document is a reference to Australian currency unless otherwise stated. Any reference to a statute, ordinance, code or other law includes regulations and any other instruments under it and consolidations, amendments, re-enactments or replacements of any of them. Any reference to Annual Report is a reference to this document.

ABN
Australian Business Number

above rail
Rollingstock—including locomotives and wagons and associated infrastructure (e.g. maintenance and operational depots)

ACN
Australian Company Number

ASIC
Australian Securities and Investments Commission

ASX
Australian Securities Exchange operated by ASX Limited (ABN 98 008 624 691)

ASX Listing Rules
The official listing rules of ASX

below rail
Track, electric infrastructure, signalling and associated rail infrastructure

Board
The Board of Directors of QR National Limited

CAGR
Compound annual growth rate, expressed as a percentage per year

CGT
Capital Gains Tax

Coal
The above rail coal haulage operating division of QR National

Company or QR National
QR National Limited (ACN 146 335 622), and where the context requires, includes any of its subsidiaries and controlled entities

Company Secretary
The company secretary of QR National Limited

Constitution
The constitution of QR National Limited

Corporations Act
Corporations Act 2001 (Cth)

CPS
Cents per share

CQCN
Central Queensland Coal Network

CQIRP
Central Queensland Integrated Rail Project

DTC
Deficit Tonnage Charges

EBIT
Earnings before interest and tax

EBITDA
Earnings before interest, tax, depreciation and amortisation

EBIT Margin
Underlying earnings before interest and tax divided by total revenue and other income

EEO
Energy Efficiency Opportunity

EEO Act
Energy Efficiency Opportunity Act 2006 (Cth)

EPS
Earnings Per Share

Freight
The above rail freight haulage operating division of QR National

FY
Financial year ended 30 June, as the context requires

GAP
Goonyella to Abbot Point

GAPE
Gonyella to Abbot Point Expansion

GAAP
Generally Accepted Accounting Principles

IBNR
Incurred but not reported

IFRS
International Financial Reporting Standards

km
kilometre

LTIA
Long-term Incentive Awards

LTIFR
Lost Time Injury Frequency Rate, being a measure of the number of lost time injuries per million hours worked over a 12 month period

MTIFR
Medically Treated Injury Frequency Rate, being a measure of the number of medically treated injuries per million hours worked over a 12 month period

MAR
Maximum Allowable Revenue that QR Network Pty Ltd is entitled to earn from the provision of coal carrying train services in the CQCN across the term of an access undertaking

mt
Millions of tonnes

mtpa
Millions of tonnes per annum

Network
QR Network Pty Ltd (ACN 132 181 116), a wholly owned subsidiary of QR National

Network Services
The Network Services operating division of QR National

NGER
National Greenhouse Energy Reporting

NGER Act
National Greenhouse Energy Reporting Act 2007 (Cth)

ntk
Net tonne kilometre, unit of measure representing the movement over a distance of one kilometre of one tonne of contents excluding the weight of the locomotive and wagons

operating ratio
1 – EBIT margin, expressed as a percentage

OPEX
Operating expense including depreciation and amortisation

PPT
Percentage point

QCA
Queensland Competition Authority

QR National or Company
QR National Limited (ACN 146 335 622), and where the context requires, includes any of its subsidiaries and controlled entities

Queensland Rail
Queensland Rail Limited (ACN 132 181 090)—this entity is owned by the State and operates the core public rail passenger business

RAB
Regulated Asset Base the value of the asset base on which pricing is determined by the price regulator

ROIC
Return on Invested Capital

share
A fully paid ordinary share in QR National

STIA
Short-term Incentive Award

tonne
One metric tonne, being 1,000 kilograms

tonne kilometres
The product of tonnes and distance

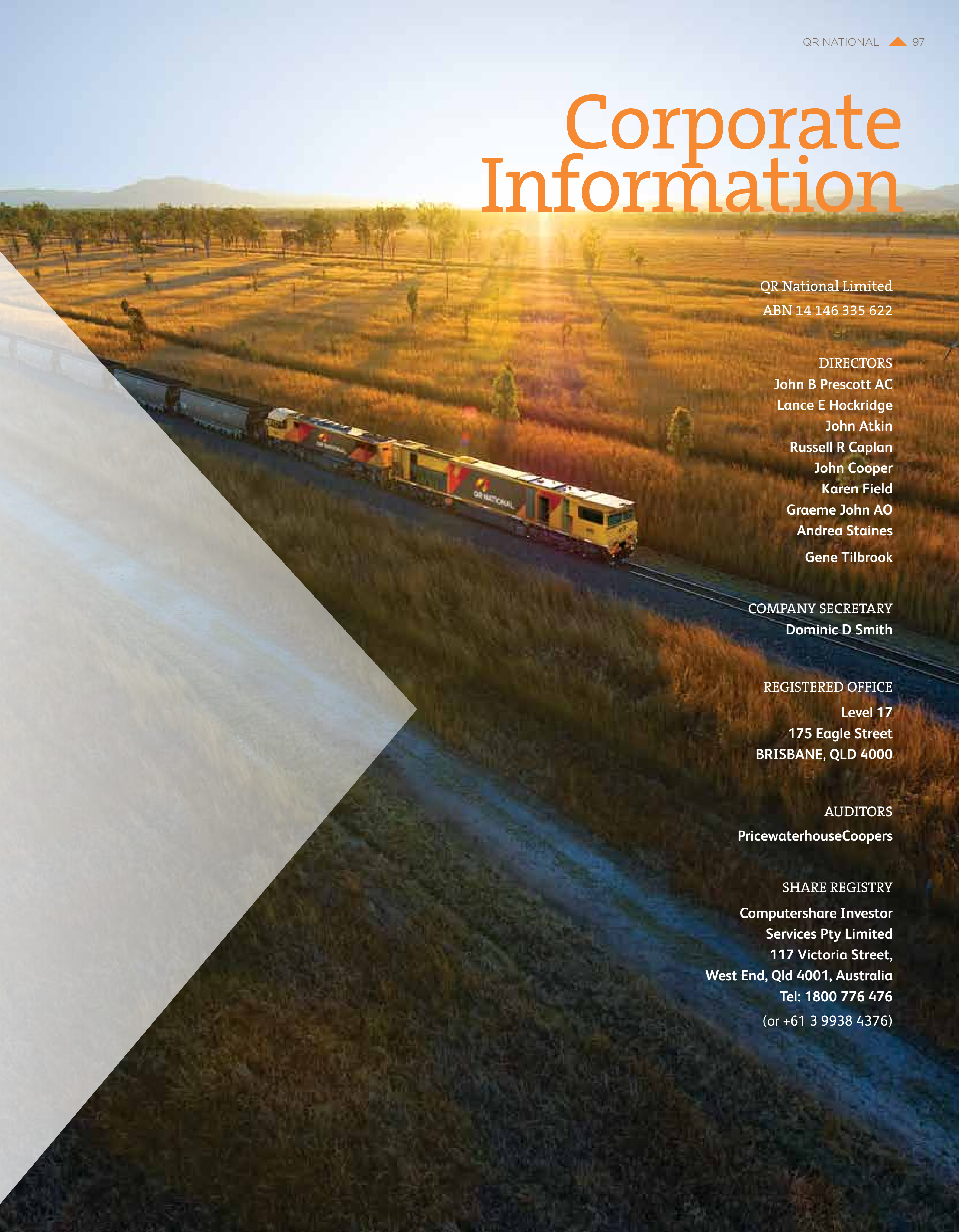
TSC
Transport Services Contract entered into between the Queensland State Government and the Company for the provision of regional freight and livestock services.

WACC
Weighted Average Cost of Capital, expressed as a percentage

WICET
Wiggins Island Coal Expansion Terminal

WIRP
Wiggins Island Rail Project

Corporate Information



QR National Limited

ABN 14 146 335 622

DIRECTORS

John B Prescott AC

Lance E Hockridge

John Atkin

Russell R Caplan

John Cooper

Karen Field

Graeme John AO

Andrea Staines

Gene Tilbrook

COMPANY SECRETARY

Dominic D Smith

REGISTERED OFFICE

Level 17
175 Eagle Street
BRISBANE, QLD 4000

AUDITORS

PricewaterhouseCoopers

SHARE REGISTRY

Computershare Investor
Services Pty Limited
117 Victoria Street,
West End, Qld 4001, Australia
Tel: 1800 776 476
(or +61 3 9938 4376)

QR NATIONAL

ANNUAL REPORT
2011–12